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U.S. ECONOMY/ LIMITED-SERVICE LODGING INDUSTRY

Laventhol & Horwath

U. S. ECONOMY / LIMITED-SERVICE LODGING INDUSTRY

6th Annual Report
1986 Edition

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THE U.S. ECONOMY/ LIMITED-SERVICE LODGING INDUSTRY— TODAY AND TOMORROW

by Daniel W. Daniele
Senior Principal
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Chicago, Illinois

In 1985, overall room occupancy nationwide decreased 2.1 percent from the 1984 level. Economy lodging properties experienced a similar downward trend in room occupancy, though not as dramatic, registering a 1.4 percent decrease from the 1984 level, according to Laventhol & Horwath's monthly publications *National Trend of Business in the Lodging Industry* and *National Trend of Business in the Economy Lodging Industry*.

Occupancies at economy properties over the past five years, compared with the lodging industry as a whole, appear in the table below:

Occupancy Percents 1981–1985

Year	Total Industry	Economy Properties
1981	67.1%	67.3%
1982	64.6	66.0
1983	65.2	65.3
1984	65.9	65.2
1985	64.4	64.0

Occupancies have shown a consistent downward trend for both economy properties and the industry as a whole. It should be noted, however, that supply in the economy segment has increased significantly over the past five years. Occupied rooms have grown substantially, but not quite at the same pace as supply, as evidenced by only a 3 occupancy point decline over a five-year period.

Room sales per occupied room for economy properties reached $30.09, a 3.8 percent increase from 1984. By comparison, sales in that category rose 4.4 percent to $59.07 for the entire industry. This is the second consecutive year that room sales per occupied room for the industry as a whole increased at a faster rate than those for economy properties. This is attributed to two major factors: the effect of the dramatic increase in the supply of new economy rooms on achievable room rate increases, as mentioned above, and the overall decline in inflation over the past two years in general.

Will the growth continue?

The complexion of the lodging industry has continued to evolve over the last several years as segmentation and product niching dominate new development. The all-suite and courtyard-style segments are growing at exponential rates.

In terms of the absolute number of total guest rooms developed, however, all-suite and courtyard properties are overshadowed by the tremendous increase in economy/limited-service properties. By definition, economy/limited-service facilities offer standard-sized, fully furnished, modern

rooms at rates 20 to 50 percent below area average rates. While they typically do not feature a restaurant on the premises, several offer a complimentary continental breakfast. Location next to or near a full-service restaurant, however, is important.

Born in the 1970s when high inflation drove up room rates at full-service hotels, economy/limited-service properties emerged as alternatives for value-conscious business and leisure travelers. Today, these properties are increasingly accepted by all traveling segments. For instance, corporate training programs are a major user of economy/limited-service properties because room rates are low enough to avoid doubling up in rooms.

Amenities such as free local telephone calls, continental breakfasts, in-room movies, remote-control television and improved in-room work areas have become almost necessary components of an economy lodging facility.

Top 50 chains

The top 50 economy/limited-service chains in 1985 represented 2,566 properties and 256,400 rooms. In 1986 the top 50 chains represented 3,259 properties and 323,590 rooms, a one-year increase of 693 properties (27 percent) and 67,190 rooms (26.2 percent).

The chain with the largest percentage increase in rooms growth and rank was Hampton Inns, which expanded from four properties and 488 rooms in last year's ranking to 67 properties and 8,200 rooms. In just over one year, Hampton Inns, a Holiday Corporation division, added more than 7,000 rooms and climbed to 10th place on our list from 47th.

The next largest gain in the Top 50 was experienced by Marcus Corporation's Budgetel Inns. Its addition of 22 properties and 2,300 rooms caused a rise from 21st place to 13th.

Other chains posting major room-count increases include Econo Lodges (10,300); Super 8 (7,200); Quality International's Comfort Inns (6,600); La Quinta (4,500); Days Inns (4,100); Red Roof Inns (2,700); Allstar Inns (2,400) and Knights Inn (1,700).

Chains that did not make this year's Top 50 but appeared in last year's list are Tapadera Motor Inns, Tourway Inns, Wynfield Inns, Interstate Inns and Select Inns.

We predict that L-K Motels' Country Hearth Inns, Cross Country Inns and Clubhouse Inns are the up-and-coming chains to look for next year.

Not included in the Top 50 U.S. Economy/Limited-Service Economy Chains list are referral organizations such as Budget Host Inns, Fort Worth, TX (142 units, 6,100 rooms); USA Inns, Goodlettesville, TN, which include Best Value, Magic Key and Superior Motels (112 units, 3,830 rooms), and Friendship Inns, N. Bergen, NJ (300 U.S. units, 16,000 rooms).

Friendship Inns has embarked on an aggressive franchising campaign that has already netted some 40 franchisees representing about 2,100 rooms. Officials expect that by December 31, 1986, when the last referral memberships expire, Friendship will be 100 percent franchisees. Look for them on next year's list.

The map on page 6 illustrates the geographic concentration of economy/limited-service properties by rooms. The greatest concentration is in the South Atlantic region, which contains almost 22 percent of rooms. The ranking of the regions are listed below:

Rank	Region	Percent Total Rooms
1	South Atlantic	22%
2	West South Central	15
3	East North Central	14
4	Pacific	12
5	East South Central	9
6	West North Central	8
7	Upper South Atlantic	6
8	Upper Mountain	5
9	Lower Mountain	4
10	Middle Atlantic	3
11	New England	2
		100%

Note: Percentages are rounded to the nearest whole percent.

Rank	State	Economy/ Limited-Service Rooms	Population Rank	Top 50 Economy Chains*
1	FL	10.6%	7	—
2	TX	10.5	3	LaQuinta Motor Inns, Lexington Suites, Texian Inns, Amberley Suites, Amerisuites
3	CA	9.6	1	Apple Inns, Motel 6, Allstar Inns, Sixpence Inns, E-Z 8 Motels, Ha Penny Inns, Vagabond Inns, National 9 Motels, Travelers Inns
4	GA	5.1	12	Days Inns, Hospitality International, Roadstar Inns
5	OH	4.3	6	Red Roof Inns, Knights Inns, L-K Motels, Skylight Inns, Bargaintel Inns
6	NC	4.1	10	Econo Lodges, Cricket Inns
7	VA	4.0	13	Imperial 400
8	TN	3.9	17	Passport Inns, Shoneys Inn, Family Inns, Hampton Inn
9	IL	3.2	5	Regal 8 Inns, Best Inns, Budgeteer Inns
10	IN	2.4	14	Signature Inns

*Denotes chain headquarters in the state.

The 10 individual states with the highest concentration of economy/limited-service rooms are shown. An interesting correlation exists between the number of economy rooms, the headquarter chains in those states, population and commercial/tourist density within the state. Thirty-three of the top 50 chains are headquartered in these 10 states.

Are affordable sites scarce?

What will likely curtail this fast-paced new development? We believe that a shrinking number of quality, financially feasible sites will slow expansion in this lodging sector in some areas of the country.

We're not suggesting that land for developing economy properties is becoming scarce; rather, affordable land that is considered a good site in markets capable of supporting economy lodging development is fast becoming a vanishing commodity.

In many major lodging markets, developers/franchisees and chains are, literally, chasing the same site. In the major feeder markets, if the best site becomes unavailable, secondary sites are given the development green light in order to establish market presence. This rush to secondary sites may cause market occupancies to decline overall and cause scores of economy properties to operate significantly below expectations.

The South Atlantic, East South Central, West North Central, West South Central and Upper Mountain regions (see map on page 6) are showing signs that viable sites in strong markets are becoming harder to find.

Over the past several years, these regions have enjoyed rapid expansion in the economy/limited-service lodging arena. Now, sites are becoming harder to find because they are expensive and may not necessarily be situated in an ideal market.

The New England, Mid-Atlantic, Pacific and East North Central regions still may offer substantial opportunities for future development. Although land costs are higher in these regions, we believe they are stronger markets for economy/limited-service facilities. Our research shows that full-service hotel room rates are significantly higher in these regions, and properties in the Northeast are generally much older than those in other regions. And travel is up, pushing occupancies to capacity.

With its relatively low land costs, the East North Central region is another strong market due to the resurgence in business and leisure travel. However, development opportunity here may cease very soon, as numerous chains and developers snap up available sites.

Future outlook

After a decade of spectacular expansion activity and recent new product enhancements, economy/limited-service lodging chains have left the infancy phase and entered into what promises to be an equally remarkable, if turbulent, adolescent phase of development. The shrinking number of quality, financially feasible locations will slow expansion of the economy/limited-service lodging properties in some areas of the U.S. Sites will be the limiting factor in the future since they are a finite commodity.

"In the 1920s, the 'drive-in' and 'motel' appeared on the edge of town."

The larger, full-service lodging chains have taken notice of the success of the economy lodging segment. One major company, Holiday Corporation, entered the economy lodging segment in 1984 with Hampton Inn Hotels; Marriott Corporation is also actively investigating entering this alluring, high-margin segment. Their Marriott Courtyard, although downscaled from their other full-service hotels, is not considered an economy/limited-service facility. However, as a result of the Courtyard's success, coupled with the fact that Marriott has no product in the economy sector, it may soon throw its hat into the ring.

Full-service hotels have felt the effect of economy properties as their guests defect to the newer, less expensive rooms-only product. This has caused many full-service corporate lodging executives to reevaluate the lodging products and room rates offered to the U.S. traveler.

It's the Great American Way! Where there's a void, everyone rushes in until there's an overcapacity. The economy/limited-service formula worked all too well, and in 1987 it will create overcapacity situations in certain regions and markets. However, all lodging properties will experience significant increases in summer tourism as Americans vacation at home instead of traveling abroad.

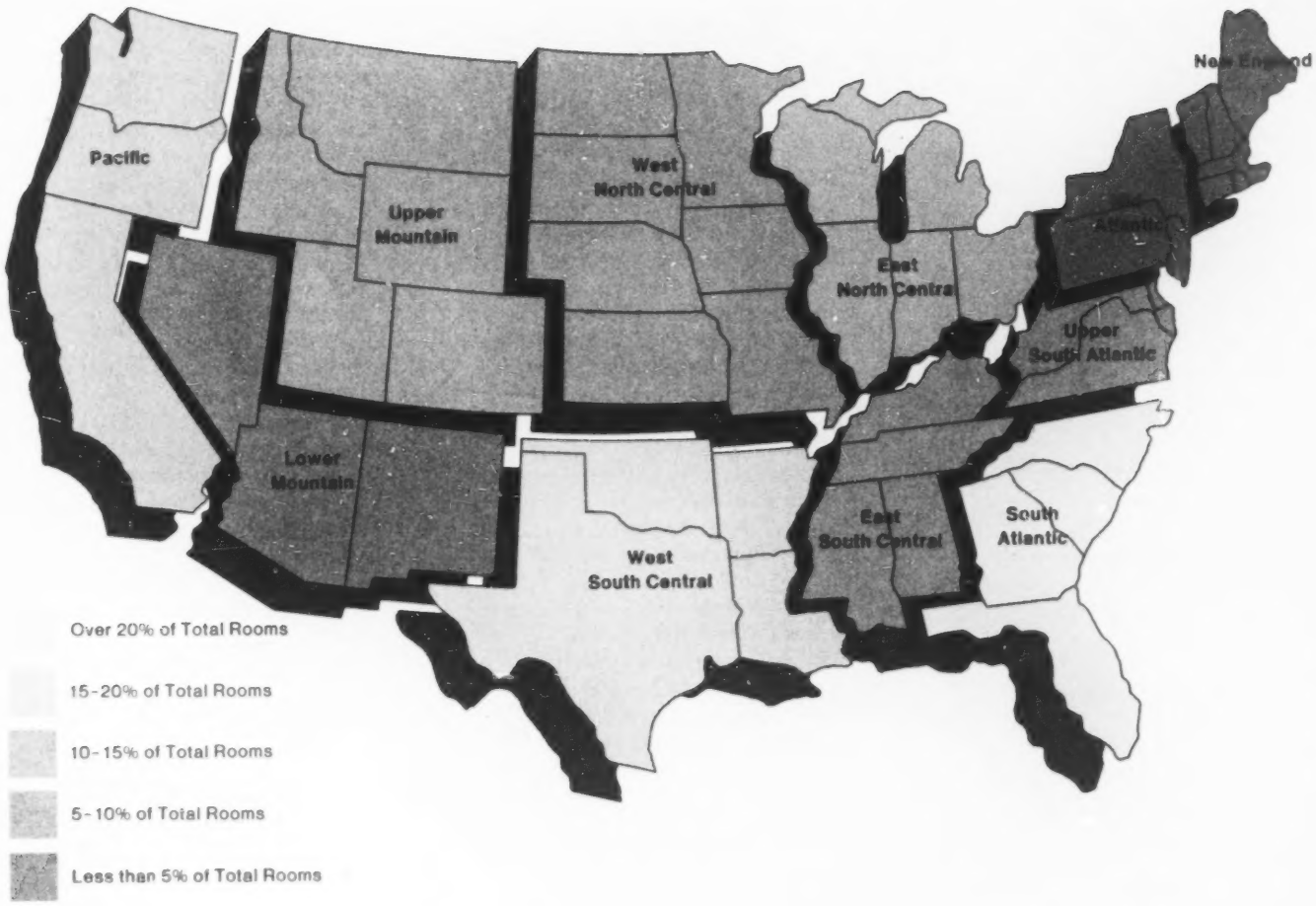
Mergers, acquisitions and consolidations will occur at an ever-increasing rate in 1986, as smaller, less financially strong regional chains find it increasingly difficult to compete. Days Inns of America recently acquired Thrifty-Scot Motels, a regional, privately held motel chain with 36 properties and 3,000 rooms, located in the Upper Midwest. Days Inns, which has courted economy lodging chains in the U.S. and Canada, purchased five properties in Minneapolis from Cricket Inns (another regional chain) in order to effectively enter that market. Several economy lodging chains—feeling the financial crunch—which do not find a compatible merger partner this year, may end up reading Chapter XI of the Federal Bankruptcy Law. There will be a shift from development in the next year to an orientation toward more marketing and operations in the later part of the decade.

International development, especially in Europe, the Far East and Australia, may offer the U.S. lodging chains ample opportunities to continue their expansion activities once the United States becomes saturated. Franchising may be the vehicle as national markets become more global in the future. Days Inns and Super 8 have successfully entered Canada through franchising. Days Inns is also negotiating arrangements to develop up to 30 properties in China.

Marketing will become extremely important in the years to come as chains enter their early maturity phase and try to lure guests to their properties. The message most chains will be communicating is "Stay with us, be proud of where you lodge, while feeling good about how little you spend."

The economy/limited-service lodging industry has been following a basic unalterable fact of business: Success creates envy, envy fuels emulation, and emulation breeds excess.

Laventhol & Horwath expresses its appreciation and thanks to those who contributed to this study. Their suggestions, comments and timely assistance have made possible the 1986 edition of *U.S. Economy/Limited-Service Lodging Industry*.



Geographic Concentrations Legend

Region	States
New England (NE)	ME;NH;VT;MA;CT;RI
Mid Atlantic (MA)	NY;NJ;PA
Upper South Atlantic (USA)	MD;DE;WV;VA
South Atlantic (SA)	FL,GA;NC;SC
East North Central (ENC)	IL;IN;OH;MI;WI
East South Central (ESC)	AL;KY;MS;TN
West North Central (WNC)	IA;KS;MN;MO;NE;ND;SD
West South Central (WSC)	AR;LA;OK;TX
Upper Mountain (UM)	CO;ID;MT;UT;WY
Lower Mountain (LM)	AZ;NV;NM
Pacific (P)	CA;OR;WA

*Ranked by the number of rooms; all room totals rounded to the nearest hundred.

Top 50 U.S. Economy

Limited-Service
Lodging Chains

Rank	Chain Name/ Headquarters Location	Ownership Structure	Number of Properties	Number of Rooms	Average Property Size	Geographic Concentrations	Published Room Rate Ranges Single
1	Days Inns of America, Inc. Michael A. Leven, President & COO 2751 Buford Highway, N.E. Atlanta, GA 30324 404-325-4000 800-325-2525	Company Owned/ Franchised	318	49,500	156	NE;MA;USA; SA;ENC;ESC; WSC;UM;LM; P	$25.00-$65.00 X-Person $6
2	Motel 6, Inc. Joseph McCarthy, President & CEO 51 Hitchcock Way Santa Barbara, CA 93105 805-682-5656	Company Owned	401	45,000	112	National	$16.95-$21.95 X-Person $4
3	Econo Lodges Ben E. Douglas, President & CEO 6135 Park Road, Suite 200 Charlotte, NC 28210-9981 704-554-0088 800-446-6900	Franchised	354	27,900	79	National	$24.00-$40.00 X-Person $5
4	LaQuinta Motor Inns, Inc. Sam Barshop, President & CEO 10010 San Pedro San Antonio, TX 78216 512-366-6000 800-531-5900	Company Owned	192	24,100	126	MA;USA;SA; ENC;ESC;WSC; UM;LM;P	$30.00-$50.00 X-Person $5
5	Super 8 Motels, Inc. Loren Steele, President & COO 1910 8th Avenue, NE Aberdeen, SD 57401 605-225-2272 800-843-1991	Franchised	348	22,200	64	National	$21.88-$54.88 X-Person $4
6	Comfort Inns Robert C. Hazard, Jr. Pres. & CEO 10750 Columbia Pike Silver Spring, MD 20901 301-593-5600 800-228-5150	Franchised	231	18,200	79	National	$24.00-$50.00 X-Person $5
7	Red Roof Inns, Inc. James R. Trueman, President & CEO 4355 Davidson Road Hilliard, Ohio 43026 614-876-3200 800-848-7878	Company Owned	146	15,900	109	NE;MA;USA; SA;ENC;ESC; WNC;WSC	$23.95-$33.95 X-Person $5
8	Hospitality International, Inc. (Master Hosts/Red Carpet/Scottish Inns) Richard H. Rogers, President 1152 Spring Street, Suite A Atlanta, GA 30309 404-873-5924 800-251-1962	Franchised	186	15,800	86	MA;USA;SA; ENC;ESC;WSC	$20.00-$35.00 X-Person $5
9	Knights Inn Art W. Stiles, Director 6561 E. Livingston Avenue Reynoldsburg, OH 43068 614-866-1569	Company Owned	76	8,300	109	MA;USA;SA; ENC;ESC	$24.00-$30.00 X-Person $5
10	Hampton Inn Hotels Raymond E. Schultz, President 6799 Great Oaks Rd., Suite 100 Memphis, TN 38138 901-756-2811 800-Hampton	Company Owned/ Franchised	67	8,200	122	MA;SA;ENC; ESC;WNC;WSC; LM	$25.00-$65.00 X-Person $4
11	Allstar Inns, Inc. Daniel R. Shaughnessy, CEO 2020 De La Vina Santa Barbara, CA 93130-3070 805-687-3383	Company Owned	73	7,800	107	UM;LM;P;WSC	$25.95-$32.95 X-Person $5
12	Affordable Inns (Regal 8 Inns) D. Bruce Geary, President & CEO P.O. Box 1268 Mt. Vernon, IL 62864 618-242-7240 800-851-8888	Company Owned	53	5,800	109	SA;ENC;ESC; WNC;WSC;UM;LM	$21.88-$25.88 X-Person $5
13	Budgetel Inns Stephen Marcus, President & CEO 212 W. Wisconsin Avenue Milwaukee, WI 53203 414-272-6020 800-4-Budget	Company Owned/ Franchised	43	4,500	105	SA;ENC;ESC; WNC;WSC	$25.00-$35.00 X-Person $5
14	Drury Inns, Inc. Chuck Drury, President 10801 Pear Tree Lane St. Louis, MO 63074 314-429-2255 800-325-8300	Company Owned	35	4,200	120	ENC;ESC;WNC; WSC;UM	$28.00-$45.00 X-Person $6
15	Vagabond Inns Gerald M. Kadish, President 10021 Willow Creek Road San Diego, CA 92131 619-578-8710 800-522-1555	Company Owned	49	4,000	82	LM;P;WSC	$22.95-$39.95 X-Person $5
16	Imperial "400" National, Inc. A. Dennis Fitzgerald, Gen. Mgr. 1000 Wilson Boulevard Arlington, VA 22209 703-524-4880 800-368-4400	Company Owned/ Joint-Venture	62	3,700	60	MA;USA;SA; ENC;WNC;WSC; UM;LM;P	$25.95-$35.95 X-Person $5

(continued on next page)

Top 50 U.S. Economy

Limited-Service
Lodging Chains

Rank	Chain Name / Headquarters Location	Ownership Structure	Number of Properties	Number of Rooms	Average Property Size	Geographic Concentrations	Published Room Rate Ranges Single
17	Sixpence Inns of America, Inc. Donald Sodaro, President 1751 E. Gary Avenue, Suite C Santa Ana, CA 92705 714-250-1922	Company Owned	32	3,500	109	NE;ENC;LM;P	$24.00-$29.00 X-Person $4
18	Chalet Susse International, Inc. Fred B. Roedel, President Chalet Drive Wilton, NH 03086 603-654-2000 800-258-1980	Company Owned	31	3,100	100	NE;MA;USA; SA	$25.00-$35.00 X-Person $5
19	Shoney's Inns James M. Grout, V.P. Lodging 1727 Elm Hill Pike Nashville, TN 37210 615-366-9260 800-222-2222	Franchise	28	3,500	125	SA;ESC;USA; WSC	$28.00-$39.00 X-Person $5
20	Thrifty Scot Motels, Inc. Nancy Johnson, Vice Pres. Marketing One Sunwood Drive St. Cloud, MN 56301 612-255-0366 800-228-3222	Company Owned / Joint Venture	38	3,000	83	ENC;WNC;UM	$22.00-$32.00 X-Person $4
21	Exel Inns of America, Inc. David G. Stauffacher, Pres. & CEO 4706 E. Washington Avenue Madison, WI 53704 608-241-5271 800-356-8013	Company Owned	24	2,800	117	ENC;WNC;WSC	$21.95-$33.95 X-Person $5
22	L.K. Motels, Inc. Ron Devine, President & COO 1125 Ellen Kay Drive Marion, Ohio 43302 614-387-0300 800-848-5767	Company Owned	51	2,600	51	ENC;ESC	$25.00-$32.00 X-Person $4
23	E Z 8 Motels, Inc. Bill Bannasch, President 2484 Hotel Circle Place San Diego, CA 92108 619-291-4824	Company Owned	28	2,400	88	LM;P	$19.88-$30.88 X-Person $4
24	Lexington Hotel Suites Zolon Wilkins Jr., CEO 3501 N. MacArthur Blvd., Suite 403 Irving, TX 75062 214-659-0220 800-527-1877	Company Owned	17	2,400	141	ESC;WSC;LM;P	$35.00-$65.00 X-Person $6
25	Texian Inns, Inc. Jerry T. Kimbrough, President 4040 Broadway, Suite 300 San Antonio, TX 78209 512-828-6868 800-531-1000	Company Owned	19	2,200	116	WSC;UM;LM	$40.00-$60.00 X-Person $6
26	National 9 Motels Rod Jensen, President 9010 Soquel Drive Aptos, CA 95003 800-524-9999	Franchised	43	2,120	50	P	$20.00-$40.00
27	Family Inns of American, Inc. Kenneth M. Seaton, President P.O. Box 10 Pigeon Force, TN 37863 615-453-1240 800-251-9752	Franchised	24	2,000	83	SA;ESC	$23.95-$29.95 X-Person $5
28	Shilo Inns Mark S. Hemstreet 11600 W.W. Barnes Rd., Suite 200 Portland, OR 97225 503-641-6565	Company Owned	20	2,000	100	UM;P	Not Available
29	Passport Inns Terry Graham, President & CEO 454 Moss Trail Goodlettsville, TN 37072 615-859-4522 800-238-6161	Franchised	25	1,900	76	SA;ESC;WSC	Not Available
30	Cricket Inns Richard Port, President 200 Brooktown Avenue, Suite 2-A Winston-Salem, NC 27101 919-722-2262	Company Owned	15	1,900	127	SA;USA	$26.95-$36.95 X-Person $5
31	America's Best Inns, Inc. Robert N. Brewer, President P.O. Box 1719 Marion, IL 62959 618-997-5454	Company Owned / Franchised	18	1,900	106	SA;ENC;ESC; WNC	$22.88-$31.88 X-Person $6
32	Dillon Inns Roger E. Dehring, President 1612 Verona Street Middleton, WI 53562 608-831-2080 800-253-7503	Company Owned	14	1,700	121	ENC;WNC;WSC; UM	$31.00-$46.00 X-Person $5
33	Skylight Inns Ronald W. Lingafelter, President 38119 Stevens Blvd. Willoughby, OH 44094 216-953-0500 800-321-6336	Company Owned	13	1,500	115	SA;ENC;ESC	$30.00-$45.00 X-Person $5

Rank	Chain Name / Headquarters Location	Ownership Structure	Number of Properties	Number of Rooms	Average Property Size	Geographic Concentrations	Published Room Rate Ranges Single
34	Luxury Budget Inns David M. Epstein Routes 6 & 11, P.O. Box W Clarks Summit, PA 18411 717-586-1141	Company Owned	16	1,400	88	MA;USA	Not Available
35	Bargaintel Inns Ted H. Steilen, CEO 14 E. Gay Street Columbus, OH 43215 614-469-1200 800-227-Rest	Company Owned	13	1,400	108	USA;ENC	$22.95-$28.95 X-Person $4
36	Travelers Inns Jack E. Campbell, President 2701 E. Chapman Ave. / Suite 210 Fullerton, CA 92631 714-773-0555	Company Owned	11	1,400	127	P;UM;WSC	$21.00-$45.00
37	Travel Host Motor Inns of America, Inc. John Klinkhammer, President 6401 University Ave., NE, Suite 104 Minneapolis, MN 55432 612-571-4642 800-346-4974	Franchised	27	1,300	48	ENC;WNC	$20.90-$25.90 X-Person $4
38	Signature Inns John D. Bontreger, President 941 E. 86th St., Suite 213 Indianapolis, IN 46240 317-253-2797 800-822-5252	Company Owned	11	1,200	109	ENC	$35.00-$40.00 X-Person $5
39	King's Inns Steve Naylor, President 11122 N. 28th Drive, Suite 250 Phoenix, AZ 85029 602-863-3700 800-826-4070	Company Owned	9	1,200	133	WSC;LM	Not Available
40	Koala Inns, Inc. Robert S. Agnello, President 10 Post Office Square, Suite 1315 Boston, MA 02109 617-542-1300	Company Owned	11	1,100	100	NE;MA	$40.00-$60.00 X-Person $6
41	McIntosh Motor Inns, Inc. John S. Middleton, President 440 Feheley Drive King of Prussia, PA 19406 215-279-6000	Company Owned	9	1,100	122	MA	$25.95-$31.95 X-Person $5
42	AmeriSuites, Inc. Mark Y. Harris, President 313 E. Anderson Lane, Suite 201 Austin, TX 78752 512-451-5743 800-882-2266	Company Owned	9	1,100	122	ESC;WSC	$38.00-$42.00 X-Person $5
43	Apple Inns David C. Britton, Dir. of Operations 7365 Carnelian Street / Suite 230 Cucamonga, CA 91730 714-987-0331	Company Owned	10	1,070	107	P;LM;WSC	$29.00
44	Ha'Penny Inns Mervyn A. Phelan, CEO 625 The City Drive Orange, CA 92668-4924 714-639-5901 800-854-6111	Company Owned	10	1,000	100	P	Not Available
45	Roadstar Inns Richard S. Marks, CEO 1820 The Exchange, Suite 550 Atlanta, GA 30339 608-273-3900	Company Owned	11	900	82	ENC;WNC	$23.00-$33.00 X-Person $4
46	Stratford House Inns George Shipman, President 2930 S. Yale Tulsa, OK 74114 918-747-3573	Company Owned / Franchised	11	800	73	WNC;WSC	$33.00-$45.00 X-Person $5
47	Budgeteer Motor Inn H. Chris Carlstead, Jr., President 17100 S. Halsted Street Harvey, IL 60426 312-333-3120	Company Owned	6	800	133	ENC	$23.95-$35.95 X-Person $5
48	Amberley Suites Joe R. Faulk Jr., President 17101 Preston Rd., Suite 260 LB101 Dallas, TX 75248-1215 214-380-2966 800-227-7229	Company Owned	5	800	160	ESC;WSC;LM	$36.00-$46.00 X-Person $5
49	Pony Soldier Motor Inn Dennis B. Kranz, Executive Officer 9900 S.W. Wilshire, Suite 260 Portland, OR 97225 503-297-8333	Company Owned	9	700	78	P;UM	Not Available
50	Prime Rate Motels, Inc. Jim W. Miller, President 3335 W. St. Germain St. Cloud, MN 56302 612-251-4109 800-356-3004	Company Owned / Franchised	9	700	78	WNC;UM	$25.00-$35.00 X-Person $4

Chart 1

Year-to-Date Trend Report
(As of April 1986)

	Sales Percent Change				Occupancy Percent		Double Occupancy Percent		Room Sales Per Occupied Room		Total Sales Per Occupied Room	
	Total	Rooms	F & B	Other	APR	% Chg	APR	% Chg	APR	% Chg	APR	% Chg
Total	3.0	3.2	0.4	−2.4	58.4	−1.7	68.1	5.6	$30.87	2.5	$32.46	−2.4
Region:												
Northeast	5.7	5.7	*	*	64.8	−3.9	63.8	1.6	$47.59	11.3	$47.62	11.3
Southeast	8.3	7.3	−4.3	9.2	73.7	6.8	145.4	0.7	30.53	−2.0	42.51	−3.1
North Central	0.4	0.6	*	−10.6	56.3	−3.4	41.6	3.7	27.27	3.8	27.70	3.7
South Central	−6.0	−7.3	17.6	−20.0	48.8	−7.2	58.6	3.2	28.57	−0.3	32.08	1.0
West	6.0	6.0	*	5.4	56.3	−1.6	60.9	0.5	28.33	1.2	28.59	1.2
Occupancy:												
Under 41.0%	−11.7	−10.7	*	−18.4	32.5	−12.8	63.4	3.4	26.44	1.2	27.79	†
41.0 to 53.9%	−2.6	−2.4	*	−15.9	48.1	−5.3	49.1	1.7	29.04	3.1	29.93	2.9
54.0 to 68.1%	2.7	2.5	8.8	5.4	61.5	−2.4	57.5	3.2	30.64	3.4	31.91	3.6
Over 68.1%	9.5	9.9	2.5	9.8	81.0	3.1	84.9	6.1	33.08	0.9	35.28	0.6
Room Rate:												
Under $24.01	−0.9	−1.0	*	3.4	48.9	0.2	76.7	14.6	22.37	−2.6	22.71	−2.4
$24.01 to $26.41	−3.0	−3.0	*	6.0	53.7	−5.3	42.0	5.8	25.38	1.3	25.54	1.2
$26.42 to $29.58	3.2	3.8	−14.4	−15.8	58.4	−0.5	48.2	8.3	27.81	2.2	28.55	1.6
Over $29.58	5.8	6.1	2.3	0.5	66.4	−1.5	80.7	3.7	38.81	3.9	42.13	3.6
Size:												
Under 50 Rooms	0.5	0.5	*	−12.2	51.4	−1.7	73.3	−2.9	$27.09	2.2	$27.15	2.2
50 to 99 Rooms	−0.7	−0.8	*	−2.2	51.3	−2.3	56.7	1.4	27.09	1.1	28.44	1.2
100 to 300 Rooms	4.4	4.7	−0.6	−2.4	62.6	−1.7	70.0	6.2	32.73	2.9	34.57	2.6

*Insufficient response
†No change

BREAKEVEN ANALYSIS— RELATING COST AND VOLUME TO PROFIT

by Janet D. Carroll
Research Division
Laventhol & Horwath
Executive Offices

In the traditional sense of the word "breakeven," the concern is how much must be sold before a profit is realized. In the lodging industry, breakeven translates into the number of rooms that must be sold over a specific period of time in order to cover expenses. The following analysis compares the annual number of rooms sold and the associated revenue needed to breakeven for 1983, 1984 and 1985 in the economy/limited-service segment of the U.S. lodging industry. The information used in this analysis is based on hotels with 75 to 125 rooms which participated in Laventhol & Horwath's series of annual lodging studies on this lodging segment.

The methodology used to produce the graphs is based on a cost-volume-profit analysis,[1] which quantifies the effect on revenues of manipulating cost items and sales volume. The chart below shows a sample of the 1985 operating statement derived from the sample described above. The division between the fixed proportion of itemized costs and the variable portion is based on L&H assumptions.

[1] *James J. Eyster. "Insuring Your Profit Margin," The Cornell H.R.A. Quarterly, November 1974, pp. 3-11.*

Fiscal Year 1985

		Fixed Costs	Variable Costs
Revenue	$803,760		
Departmental Expenses			
Payroll	$109,751	$ 98,776	$ 10,975
Rooms	57,771	17,331	40,440
Telephone	12,599	2,520	10,079
Minor Departments	4,550	0	4,550
Total Department Expenses	184,671		
Undistributed Expenses			
Payroll	52,643	52,643	0
Administrative & General	51,179	33,266	17,913
Marketing	15,870	14,283	1,587
Energy	56,256	36,566	19,690
Property Operation & Maintenance	17,749	13,312	4,437
Total Undistributed Expenses	193,697		
Management Fees	30,559	0	30,559
Fixed Charges (Rent, Interest, etc.)	255,289	255,289	0
Profit	$139,544		
Total Expenses		$523,986	$140,230

Presented graphically, breakeven analysis has three main components:

1. Fixed Cost Line
2. Variable Cost Line
3. Total Revenue Line

The first component in the 1985 analysis, fixed costs (as listed above) is computed at $523,986. These costs are easily plotted as a horizontal line at the stated value. However, the variable cost line is more complicated to figure; two points are needed to plot this line. One is the intersection of the fixed cost line with the vertical axis. At this location, there are no variable costs since there are no rooms sold, and there is an average of $523,986 in fixed costs. The other point needed to determine the slope of the variable cost line is determined by calculating the breakeven point in terms of revenue and rooms sold using the following process:

1. Variable Cost Ratio (VCR) = $\frac{\text{Variable Cost in Dollars}}{\text{Total Revenue}}$

2. Contribution Margin (CM) = 1 − Variable Cost Ratio

3. Breakeven Volume = $\frac{\text{Fixed Costs}}{\text{Contribution Margin}}$

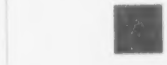
4. Breakeven Units = $\frac{\text{Breakeven Volume}}{\text{Average Room Rate}}$

$$\text{VCR} = \frac{\$140{,}230}{\$803{,}760} = .17$$

$$\text{CM} = 1 - .17 = .83$$

$$\text{Breakeven volume} = \frac{\$523{,}986}{.83} = \$631{,}308 \text{ total revenue}$$

$$\text{Breakeven units} = \frac{\$631{,}308}{\$30.48} = 20{,}712 \text{ rooms sold}$$



"In the 1950s, convention business grew in importance. Many hotels became convention-oriented."

The last two numbers derived are the coordinates of the breakeven point, which is then connected to the vertical axis at the fixed expenses point to become the basis of the variable cost line. This same point is then connected to the intersection of the vertical and horizontal axes (no volume, no rooms sold) to become the total revenue line to complete the graph. What remains is the interpretation.

The shaded region below the breakeven point is labeled "loss." When revenue and rooms sold are at this level, there are insufficient funds to cover fixed and variable expenses. Similarly, the "profit" region is found above the breakeven point. At this higher level of revenue and occupancy, fixed costs are covered and revenue is applied toward variable expenses with funds left over—the profit. Readers should recall that this is based on mean results for limited-service operations with 75 to 125 rooms for the period covered, and may not be indicative of any specific circumstances but rather an overview of the industry.

Since this article presents a three-year comparison, an examination of the numbers comprising the charts is presented. From 1983 to 1985, fixed costs rose slightly over 40 percent for the group of properties analyzed. With this comes the need for a higher contribution margin to keep breakeven levels low, allowing operators to earn a profit at low occupancy levels. During 1983, our group of properties had a breakeven level of 47.6 percent occupancy, which rose to 55.9 percent in 1984 due to higher fixed expenses and a constant contribution margin of $0.82 (the amount "contributed" toward fixed charges out of every revenue dollar, after variable expenses are covered). The table at top of page 13 compares breakeven and actual occupancy for the three years analyzed.

	Breakeven Occupancy	Percent Change	Actual Occupancy	Percent Change
1985	54.4%	−2.7	68.0%	+1.8%
1984	55.9	+17.4	66.8	+6.7
1983	47.6	—	62.6	—

This significant increase in breakeven occupancy can be partially attributed to a 29.5 percent increase in fixed charges. The 6.7 percent increase in actual occupancy was not sufficient to offset this large increase in fixed costs, helping to push the breakeven occupancy over 17 percent. Higher administrative payroll expenses and a high overall increase in undistributed operating expenses (administrative, marketing, energy and maintenance) were also noticeable factors, keeping the contribution margin at $0.82 per revenue dollar.

As shown in the table below, total fixed charges rose a meager 8.2 percent from 1984 to 1985, compared to the previous annual increase in our sample properties. Significantly higher room rates allowed total revenue to increase almost 14 percent, while total variable expenses increased at a slightly slower pace of 11.6 percent. As a result, the contribution margin increased slightly to $0.83 per dollar. This combination of events was enough to help drop the breakeven occupancy point to 54.4 percent in 1985.

	Average Revenue	Percent Change	Average Fixed Costs	Percent Change	Average Variable Costs	Percent Change	Contribution Margin
1985	$803,760	+13.9%	$523,986	+8.2%	$140,230	+11.6%	$0.83
1984	705,401	+17.7	484,103	+29.5	125,679	+13.9	0.82
1983	599,273	—	373,733	—	110,367	—	0.82

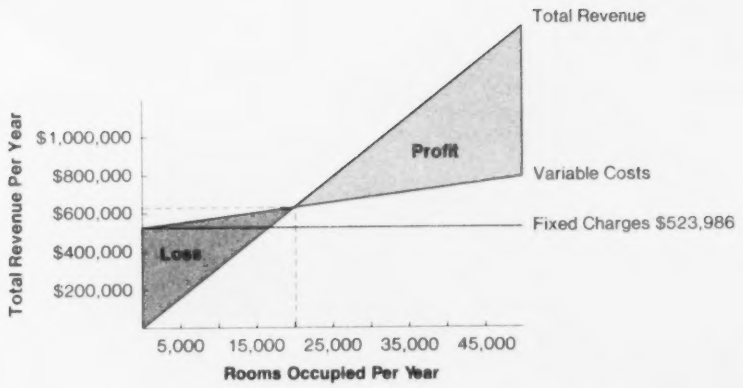
Conclusion

Room rates are expected to increase at a moderate pace over the next year in order to cover costs of increased marketing efforts by chain management as emphasis is placed on its strength over competitors. Priorities for many chains in 1986 will be renovation and consolidation, as they rush to upgrade and/or purchase properties before year-end, prior to the passage of proposed Federal tax bills, increasing capital expenditures which should push interest and depreciation expenses ahead of 1985 figures. This tax reform, coupled with additional administrative and marketing expenses which should lower the contribution margin, will force the breakeven point to possibly rise 2 percentage points in terms of occupancy.

Breakeven Analysis

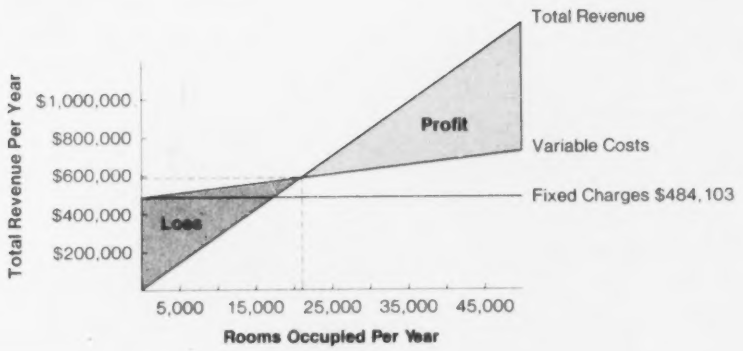
Economy/Limited-Service Lodging Industry
(75–125 rooms per property)

1985



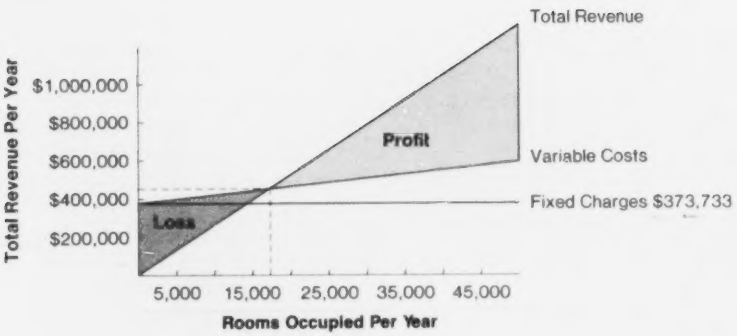
Breakeven Volume = $631,303
Breakeven Rooms = 20,712

1984



Breakeven Volume = $590,370
Breakeven Rooms = 21,092

1983



Breakeven Volume = $455,772

Breakeven Rooms = 17,277

AUTOMATION FOR ECONOMY/ LIMITED-SERVICE HOTELS

by Cynthia A. Mable
National Director
Leisure Time Systems
& Technology
Laventhol & Horwath
Executive Offices

Never before have hotels in the economy/limited-service sector of the lodging industry had so many choices when selecting property management systems and other computer-based products. Historically, hotels in this sector of the industry have been limited in their choices because automation was too expensive and aimed at the needs of larger properties. In the last two to three years, the proliferation of microcomputers has brought the price of automation to within an affordable range for economy/limited-service hotels. Today at least 20 vendors offer microcomputer-based property management systems (PMS), and numerous vendors are offering call accounting and other application systems specifically designed for smaller properties.

Just because microcomputer-based systems are less expensive than their minicomputer-based counterparts for larger hotels doesn't mean that less care is required in selecting the smaller systems. Since microcomputers, such as the IBM PC, are often advertised as consumer products instead of technological products, users frequently think that the selection of the right product is a trivial task. Also, the amount of staff training and the time required to implement a microcomputer-based system is often underestimated. Although some vendors of microcomputer-based property management systems do not offer on-site training at the hotel, many are beginning to offer such training and support due to user demand.

A hotel in the economy/limited-service sector, or the industry that is considering automation for the first time or as a replacement for a current system, should take the same basic steps used in selecting a larger system; however, it shouldn't require as much time to complete each step for this type of property. These steps include:

Planning for the new system. Although this step is frequently overlooked in the system selection process, it can mean the difference between a successful systems installation and an unsuccessful one. During the planning process, hotel management should determine the objectives they wish to accomplish in acquiring a new system, identify a project leader who will have overall responsibility for the system, and define the timeframe for selecting and installing the system. The primary users of the system should be identified and, if appropriate, a user committee should be formed to work with the project leader in subsequent steps of the project.

Identifying information needs. Every hotel has different automation needs, and the needs in each major application area must be considered. The primary application areas in a property management system are reservations, registration, rooms management, telephone switchboard, housekeeping, guest accounting and billing, guest history, marketing information, back office accounting and interfaces with other systems.

As the hotel industry becomes more competitive, guest history and marketing information are becoming increasingly important in assisting hotels to stabilize and improve their occupancy levels. Guest history, when used properly, enables hotels to track their frequent guests and align with their room preferences, demographic, revenue and travel agent information. This information can be invaluable in conducting mail campaigns and constructing programs geared to frequent guests. In addition, marketing information is needed to formulate strategies for attracting corporate clients and to increase the hotel's group revenues.

The capabilities of the back office accounting system must be examined closely to determine the flexibility of the general ledger to accommodate the hotel's established accounting procedures, such as the numbering system used in the chart of accounts. The city ledger (part of the front office in many systems) should be capable of handling accounts on either an open item or balance forward basis, depending on existing procedures. Also, if the back office accounting is performed at a central location, such as a corporate headquarters or a property management company, the need to maintain selected financial information at the property must be considered.

Interfaces are particularly important for this segment of the industry because many PMS of this size have only limited interface capabilities. There may be two types of interface limitations: whether the particular interface has actually been developed/implemented with the PMS, and the total number of interfaces that can be implemented with the micro-based property management system.

Selecting the system. The first step in the PMS selection process is determining the criteria that will be used in the selection process. The ability to satisfy information needs should be one of the major selection criteria; vendor support should be another major factor. Many vendors who sell these products do not have an extensive distribution/support network and support the software from a central location that does not offer 24-hour support. Hardware support can usually be obtained on a local basis, but can become an important factor if the hotel is located in a geographically remote area. Current users of the system should be contacted to determine their satisfaction with the system; if possible, these users should have a system configuration similar to the one being considered for implementation.

In addition, the vendor's financial stability should be investigated before making a purchase decision. Although a recent wave of joint ventures, mergers and acquisitions has improved the financial position of many vendors with products for this segment of the industry, vendors still continue to leave this market at a rapid rate.

"In 1220 A.D., a traveler might, after a weary and dusty day on the road, arrive at a caravanserai at nightfall, only to find the place booked solid by a Mongol horde."

Installing the system. Adequate planning should occur prior to installation to ensure that no details are overlooked. Sufficient time must be scheduled for staff training, and installation should be planned for an off-peak period, if possible. If staff training is conducted at a location outside of the hotel, staff schedules and travel arrangements must be considered. Plans must be made for entering reservations and other information, such as account balances, into the system. Arrangements also must be made for training new staff members hired by the hotel and for retraining current staff members who require more time to learn their functions than originally provided during the installation; some system vendors may offer computer-assisted or video training modules that can facilitate this training.

Approximately 60–90 days after installation is completed, it is often beneficial to conduct a post-implementation review with the major users of the system. By this time, most staff members will be familiar with the operation of the system and may be able to suggest changes to manual procedures, enabling their departments to utilize the system more effectively.

There is no doubt that automation for this segment of the industry is here to stay. For hotels in the economy/limited-service sector that have been postponing the decision to acquire new computer-based technology, there is no time like the present. With current product offerings, systems are available that satisfy nearly every hotel's needs and budget constraints.

COMMENT

by Jerrol Boyer
Director, Small Properties
Service Department
American Hotel and
Motel Association

The hospitality industry is one of the oldest industries known to modern man. Evidence of the lodging industry has been found in the archeological digs in the Mesopotamia Valley as well as the ancient Americas. It even appears that the entrepreneur of ancient times had many of the same problems hoteliers face today: occupancy rates, skips and marketing.

The lodging industry played a great part in the early growth of our nation (just notice how many places George Washington spent a night), from the home in the woods with a lamp in the window to road side inns, railroad hotels, major city palatial hotels and, in recent years, motels and motor hotels. Expansion of interstate highways and larger, faster airplanes have made travel easier; both have been strong motivating factors for growth. Today, convention centers, the luxury, family-midpriced, limited-service properties and others comprise the industry that spreads from elite resorts to the main streets of the United States.

The organization of hotel and motel chains has been a relatively recent phenomenon, taking place within the last 30-40 years. With it have come such changes as:

- Absentee ownership—managers without a personal involvement.
- Larger properties with additional facilities.
- Research in various aspects of the operations bringing innovations and the introduction of technology.
- Outside investment-producing expansion.
- Name identifications.
- Expanded marketing and sales programs, including central reservations, toll-free numbers and promotional programs.

Through aggressive marketing, the industry has created new markets, no longer waiting for the world to beat a path to its door.

Reports in 1986 indicate that 85 percent of all new construction in the U.S. is by chain organizations. In addition, independent operators are joining franchise companies, federations and cooperations in order to take advantage of the name identity, central reservation and marketing programs they could not enjoy as individual operators.

At the same time, the entrepreneurial spirit is alive and growing. There are more single, independent operations and more chains of two to five properties than at any period of time. By being distinctive and filling the needs of specific groups or markets, there is great potential for success.

The lodging industry has grown to the point of becoming one of the largest industries in the nation. With growth of dimension, change is normal. In our business, however, change has been slow and it appears that some things never change: Marketing and encouraging the public to purchase the product has always been a challenge, and hiring competent employees is as difficult as it was hundreds of years ago. Many of the methods and procedures for performing various tasks are as old as the traditions of the "ancients."

Over the years, individuals have entered the industry seeking great profits, knowing they can out-perform the successes of their predecessors. However, they immediately discover the same problems and reinvent the same policies, solutions and programs as their predecessors. So often their independent attitude keeps them from learning from others and working together for the common good of all.

"During the French Revolution, hotels, the residences of nobility, were made available as public houses because of the absence of their owners, some of whom lost their heads."

In the late 1960s and early 1970s, a new segment of the industry began: the economy/limited-service motel. The concept was simple—provide clean, comfortable rooms with only basic amenities and very limited facilities. With research, they were able to

produce standards in purchasing, construction, operations and employee performances that resulted in controls, which produced extraordinary profits at rates 25 to 30 percent under the rack rate of the competition. Promotional and marketing programs were developed which resulted in above average occupancies. Management training programs were implemented.

These standards, programs and potential profits have generated the fastest-growing segment in the industry. This has created competition and additional segmentation. Some companies, for example, elected to add amenities and facilities, making them more like full-service competition; some changed so much that they lost their uniqueness. Other operators introduced concepts to upgrade into luxury economy, while others remained determined to "do what they do better." Through all this, the economy segment has retained its position of leadership and as innovator in the industry.

As we approach the end of the 1980s, we see events developing which will have a lasting impact on future decisions, where as in the past, change was slow. The hospitality industry is moving into a leadership position which was previously held by the giants of industry.

The 1990s are predicted to be a time of labor shortages in all levels of employment. Not only will there be fewer potential employees but less qualified ones as well. The 1990s will also experience a smaller world as more people become international travelers. World events, various states and groups promoting tourism, sports events, etc. will generate new markets. As industry takes a lesser role in our economy, travel patterns will change. People will not visit a site unless they have heard of the motel or it is part of a specific sponsorship.

Other events are changing the ways which limited-service hotels and motels will operate:

The aging of our society—older Americans who have both time and money to travel. Their needs are different from the traveling businessman; they are more demanding and less forgiving of poor service or facilities. Technology will affect all aspects of the industry, such as new materials in furniture, and fixtures will require special handling but less labor. Many tasks will be automated and computers will be utilized in monitoring security, controlling energy use, protecting inventories and ordering supplies, gathering guest information to satisfy specific needs, establishing efficient laundry formulas, improving communications to the employees, guest and marketing agents, as well as the already accepted front desk operations, call accounting and back office procedures. Ownership will find that an attitude of caution, short range management or a desire for status quo are certain to product obsolescence. Knowledge of all facets of the business will not be enough; the ability to communicate to the right person quickly and effectively will be critical. Business will be conducted through technology.

Marketing today for the future

New markets must be created. Some are already considered overbuilt or under occupied, but new properties are being constructed at an unprecedented rate. There have always been slow days and off seasons, yet programs are being developed to fill empty rooms, and marketing professionals are making efforts to attract business away from other properties. With faster travel methods abounding, travel patterns will change; marketing efforts will have to become aggressive and move into areas far afield. The message of the property owner will have to reach the homes of nearby communities as programs are developed to give travelers a reason to leave the comfort of home and travel to the lodging facility.

Cooperatives are being formed in various markets to promote traffic into specific areas. Through cooperatives,

funds are generated and concepts developed which individual operators could never afford. A marketing attitude and management involvement, far greater than in the past, will make a considerable difference. Current reports of the industry show that chain operators regularly sustain a 2 to 5 percent increase in occupancy over the independent operators; it is important to remember that marketing may bring people in the first time, but it is the value they receive that will bring them back.

Along with chain programs and cooperatives, there are several resources available to help promote the lodging property. There are convention centers, tourism programs sponsored by local state and Federal groups, travel agents, group wholesalers, bus tours and other agencies that need these facilities to accommodate their customers. There are national and local business accounts that will sell rooms but managers must become involved—management must support the programs, let guests know they are wanted and offer hospitality. Greater activity within the community, and involvement in the industry on a local, state and national basis will be necessary not only to promote business, but to protect the right to do business.

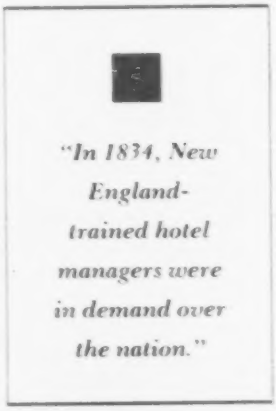
Employee relations

New materials and technology are changing the work assignments for employees. Additional responsibilities and authority are delegated. Training and adult education should be major functions of management; work rules will alter through better communications and improved quality of life for individuals. Managers will become more skilled and professional in their personnel responsibilities. For example, they must:

—have knowledge of employee relations and have the ability to maintain high levels of productivity with the available work force.

—resolve personal grievances and make each employee feel that he is a member of the sales team.

—enforce established policies and standards, discipline (fairly) when necessary and reward performance when merited; evaluate performance constructively and coach individuals to achieve their potential.



"In 1834, New England-trained hotel managers were in demand over the nation."

Ownership

Whether directly involved or an absentee, the owner is a vital link for future success. Properties must be maintained in a fresh, appealing and up-to-date condition. Due to the faster changing nature of the business, planning will have to be more specific for the next five to 10 years, not one to two as presently forecasted. Economic factors and world trends will be essential in making decisions. Short-range planning may produce higher costs for frequent refurbishing, or obsolete conditions; it may mean the inability to provide for the needs of the guest on a timely basis; it may mean not being competitive with services or price. Innovators take the lead as owners who will become more involved in establishing building codes, operating regulations and legislative matters, rather than waiting to use a piece of equipment, a service or program. Property managers must be given the support and necessary supplies in order to achieve desired results. As the owners' role changes, the property manager must be groomed for greater responsibility. The working relationship must be built on trust, each level of management relying upon the others and communications flowing effectively, from the higher levels to the subordinate and to the guest. Close supervision but a free hand to operate will be management's method of operation.

As we examine the industry in 1986 and project the next few years, it is obvious that much depends upon the manager. Professional managers make things happen; they evaluate, revise and adopt as circumstances change. Managers of limited-service properties must be leaders and innovators while maintaining those aspects of the business that brought initial success. Managers will have to become experts in determining their duties and responsibilities, as well as recognizing the tasks that should be delegated; they must also be attuned to the needs of the guest.

Managers in a limited-service motel do make the difference. Their attitudes, personalities and abilities will determine the success of the business.

COMMENT

by Loren D. Steele
President
Super 8 Motels, Inc.

The economy/limited-service segment of our national lodging market continues to have a very bright future. The first economy property opened in California in the mid 1960s, and recent statistics compiled by Laventhol & Horwath indicate that there are now over 6,000 economy properties representing 13.6 percent of the 2.6 million total rooms available in the United States today. The Economy Lodging Council of the American Hotel & Motel Association (AH&MA) has identified 65 chains that are providing product to the economy-minded commercial and recreation-oriented traveler. Over the past 10 years, economy lodging has been designated the fastest-growing segment of our industry.

Reasons for the success of our industry are obvious. A substantial segment of today's traveling public chooses not to pay for amenities which will not be needed or used; economy properties have chosen to eliminate services such as food and lounge operations, convention and meeting centers, etc. Economy properties are able to offer an outstanding price/value relationship to today's customers. Most chains provide a well-appointed, full-size guest room with conveniences common in one's home. Developers and operators have also enjoyed good returns on investment by developing efficiencies in construction which do not detract from the quality of the accommodation.

The economy industry is moving from adolescence into maturity. Our customers are comfortable with the product, and more people are seeking money-saving economy accommodations. I believe the concept will continue to enjoy increased popularity, and our percentage of the total lodging market will increase for several years.

It is my view that the problem of overbuilding, which appears to be occurring in the midscale and luxury segments of the market, has not become a major problem for economy lodging as of yet. Certainly there are a few selective markets which have an oversupply of all types of rooms and, unfortunately, the media often refers to these markets. Two significant factors contribute to the bright future of economy lodging: The demand continues to increase and, because we are so new, all markets are not yet adequately supplied with economy rooms; secondly, there is a large supply of lodging product, built in the late 1950s and 1960s, in the market today. This product is becoming dated and needs to be replaced with new rooms. I believe the economy segment will be predominant in this endeavor.

I appreciate the opportunity afforded me by Laventhol & Horwath to present my thoughts in this Sixth Annual Report on Economy/Limited-Service Lodging Operations in the United States.

COMMENT

by Robert C. Hazard, Jr.
President and
Chief Executive Officer
Quality International

Three major trends are underway that will continue to reshape the lodging industry. First is the consumers' continuing quest for quality and value. Second, the breakdown of the market into segments and subsegments—particularly the growth of the all-suite segment—will create new growth opportunities, contrary to the gloomy forecasts of industry doomsayers. And third, sophisticated, computerized reservations systems will play an increasing role in the success—even the survival—of individual hotels.

The economy/limited-service segment of the lodging industry is the land of opportunity. The phenomenal growth of the economy sector in recent years is a direct result of consumer sophistication and demand for value. In 1970, the U.S. economy lodging market consisted of 225 properties and 15,200 rooms. Today that economy segment consists of 240,000 rooms—10 percent of the market.

Simultaneously, the industry-wide trend toward segmentation has led to a breakup of the economy sector into subsegments, ranging from hardcore budget brands to limited-service and so-called "luxury-budget" brands.

The vast moderate segment of the market is destined for continued growth. While the battle for market share rages in the sometimes overcrowded, upscale segment, where developers have been building monuments instead of money makers, the demand remains for hotel rooms offering reliable service and consistent product quality at a reasonable price.

The wave of the future is clearly all-suite hotels, which today constitute about 2 percent of the market and are expected to grow to 25–30 percent. The concept behind all-suites is very similar to that of limited-service hotels: Put the primary investment into the guest rooms themselves.

The final trend under way in our business—the increasing importance of computerized reservations networks—suggests the imminent demise of the small operator. Over the next decade, independents will join forces, small chains will join larger operations and industry mergers will increase. This is expected because small operators will find it more difficult to compete with the worldwide marketing and reservations strength of major chains.

Today's travel brokers are hooked into sophisticated computerized reservations networks. Tomorrow's consumers will buy direct on home-based computers. Operators who possess the ability to hook into the computer-drive marketplace will thrive, and old pricing strategy will fall by the wayside. We will, for example, be able to adjust room rates to immediate supply and demand conditions.

All of these trends bode well for the future of the economy/limited-service segment. For guests they promise increased efficiencies and satisfaction; for investors, they promise new opportunities for growth.

The world's fastest-growing hotel system, Quality International includes 800 hotels, inns and resorts in operation or under development in 14 countries. The system encompasses limited-service Comfort Inns, midpriced Quality Inns and 4-Star Royales, as well as three all-suite brands: Comfort Suites, Quality Suites and Quality Royale Suites.

THE U.S. ECONOMY/ LIMITED-SERVICE LODGING INDUSTRY

by Jamie B. Mandell
Research Division
Laventhol & Horwath
Executive Offices

The *1986 U.S. Economy/Limited-Service Lodging Industry* (formerly the U.S. Economy Lodging Industry) is Laventhol & Horwath's sixth annual in-depth analysis on this industry. In response to the expanding nature of the economy lodging industry and the associated need for guidelines on which to base future success and growth, we have enlarged our market area in order to make this a more useful and inclusive lodging report.

Since its inception, this lodging report has become recognized as one of the most authoritative sources of information available today on the economy/limited-service lodging industry. Data in this series of reports provides an understanding of the operating characteristics of the industry for the preceding year, and is useful for analyzing trends in revenue and expenses over successive time periods. The reported ratios and amounts can be used for comparing operating results for a specific establishment versus those properties with operating characteristics similar in nature. Operating results reported should not be assumed as standards for any category, but rather as a statistical base for comparison purposes only. They are not an attempt by L&H to set or conform prices or operating ratios for the economy/limited-service lodging industry.

The questionnaire used to compile information for this year's study was consistent with those used in the past, except for a section which requested data on technological characteristics and property automation. As the lodging industry continues to evolve and grow, it has become necessary for economy/limited-service properties to expand with it; this section will therefore become an increasingly important area of study as this expansion takes shape. Results of the analysis are presented graphically.

All data and information in this report is based on a representative sample of economy/limited-service lodging properties throughout the United States, where total revenues exceeded $168 million in 1985. Operating results are presented as medians, means or quartiles, based on the information provided by contributors. Realizing that not all properties provide information on each line item, results have been analyzed individually and are based on only those supplying data. For a full explanation of medians and quartiles, refer to the Understanding Medians article published in this report.

All terminology and account titles are derived from the *Uniform System of Accounts for Small Hotels and Motels*, published by the American Hotel & Motel Association (AH&MA).

1985 operating results

Before any analysis is presented, it is important to have an understanding of the 'typical' participating property. A general profile would show this property having less than 75 rooms, with occupancy ranging from 60 to 69 percent and an average rate between $27 and $30.99. There is no restaurant operation, although many limited-service properties provide a complimentary breakfast (usually continental style) which, due to the industry's accounting practices, are not analyzed in this report. With respect to management, the land and building are owned by the affiliated chain.

In 1985, 94.6 percent of each dollar generated was earned through guest room rentals. This is a 1 percent change from last year when room sales accounted for 93.7 percent. The remaining revenue was derived through minor-operated departments and rentals and other income, accounting for 3.8 percent of each dollar. The remaining 1.6 percent was generated through telephone sales. At 22 percent, payroll and related expenses was the biggest expense item. Interest expense was 16.5 percent and depreciation drained 10.4 percent of each dollar received.

"Today, television is the most necessary lodging amenity."

Compared with the previous year, the percentage of repeat business fell 18.2 percent in 1985 based on all participating establishments. The percentage of conference participants remained low because their trips are typically pre-arranged and are usually held at a property which has the meeting room capacity, such as a full-service hotel or conference center.

A substantial increase occurred in the percentage of business and government travelers taking advantage of the economical benefits afforded by economy/limited-service properties. A supporting factor may be related to the increase in room rates throughout the entire lodging industry. As travel costs increase across the board, economy/limited-service properties are able to provide pleasant accommodations, without the frills, with rates 20 to 50 percent lower than full-service establishments. These properties are also favorably situated in areas where such ammenities are available off-site, if desired. A primary example is the lack of food and beverage outlets in most limited-service properties; the properties are typically located adjacent to restaurants, a strategy used in the selection of a location.

As society progresses and advances, the hotel industry must adapt to and utilize these changes in order to compete effectively. Many technological advancements have occurred in the industry, and economy/limited-service properties are taking full advantage of them. Reported results are based on the establishments providing data in this area. Central reservation systems are the leading automation in the industry, as 88.8 percent of the properties currently operate with one. Second in popularity are satellites used for in-room entertainment, which are presently in 75.7 percent of the properties. Others commonly used are direct dialing/international calls, cable, least call routing, and computerized accounting systems and guest accounting. A small percentage reported having in-room movies and computerized energy management systems.

Total sales, income before fixed charges and net income before income taxes are three important measurements for evaluating a property's performance. Based upon the median amounts for all establishments, total sales per room in 1985 was $7,096, a 13 percent increase over the prior year. Even with this increase, the median net income before income taxes was lower than the reported figure in 1984. Properties less than five years old had a more difficult year than older properties, reporting a loss before income tax in 1985. This was also the case for establishments with reported occupancies below 60 percent.

Examining nationwide occupancy rates, properties located in the South Central region experienced the highest percentage increase compared with that same region in 1984. Establishments with over 100 rooms tended to have greater occupancies than those with less than 100 rooms. Although occupancies fell substantially in 1982, it is important to realize that the median amount of income before income tax, as a ratio to total sales, was still a prosperous 24.1 percent during that year. It was not until 1984 that the national occupancy rate for the economy/limited-service industry began to rise again.

Occupancy figures are also interesting to examine when comparing properties which experienced a net profit versus those which reported a net loss for the year. In 1985, those establishments operating at a net profit had a median occupancy rate of 69.6 percent, 22.3 percent higher than those properties operating at a net loss. Another factor contributing to a property's net loss is the inability to control expenses which, in this year of operation, were substantially higher in comparison with all establishments reporting a net income. This is evidenced by the income before fixed charges total of $3,449 for profit-making properties and $2,160 for those operating at a loss, as fixed charges for the latter were considerably higher than those properties reporting a profit in 1985.

Total sales for economy/limited-service properties are comprised of room sales, telephone income, minor departments and rentals and other miscellaneous income. On the whole, room sales are responsible for the bulk of income, usually in the vicinity of 94 percent, while the remaining revenue is distributed among the additional sources mentioned. Suburban-area properties reported 3.1 percent of their revenue was derived from rentals and other income, an amount higher than other locations, which could be associated with the proximity of the establishment. Due to their location, suburban properties may not be accessible to certain facilities that center city properties, for example, are able to provide. Therefore, many of these services are available for rental through the actual establishment.

Total revenues versus total payroll provides an interesting comparison for the various breakdowns of establishments. Based on the age of the property, revenues increased with the younger properties as well as the total payroll for all establishments. There was one exception: Properties built between 1975-1979 had a slightly lower payroll than those built between 1970-1974. Those properties which had higher room rates also generated higher total sales as well as higher total payroll expenses, with the minor exception of properties falling into the two rate categories of $28 to $31.99 and over $32, which reported equal payrolls. As can be expected, while the

occupancy rate for the property increased, so did total revenues and total payroll.

It is important to take notice of undistributed operating expenses analyzed as amounts per available room and as ratios to total sales. Due to the inavailability of certain data, these expenses were analyzed in two manners: The first for those properties which reported their payroll, and the second for those which were not able to break down payroll accurately enough for analytical purposes. For those properties which reported their administrative and general payroll, the median total expense for this department was $1,016, or 15.2 percent as a ratio to total sales. This rose substantially from last year where total administrative and general payroll expenses, including payroll, were only 9.7 percent. Property operation and maintenance with payroll declined from 7.7 percent as a ratio to total sales in 1984 to 5.4 percent in 1985. This information is available for further analysis toward the end of the study.

> ***"A prestigious hotel opened in 1907 with the slogan 'a room and a bath for a dollar and a half.'"***

Total energy costs per occupied room fluctuated throughout the country. It was more expensive to provide fuel, electricity and water to properties located in the east than to those in the central and western areas, which was also the case last year. Actual cost of living fluctuations throughout the nation is one explanation for the price difference. Eastern cities are more heavily condensed per square mile than other regions of the country; therefore, the greater amount of a resource needed, the more expensive it becomes (the economic rule of supply and demand). It can be determined though that the bulk of the expense is derived from electricity, while fuel and water expenses vary throughout the nation.

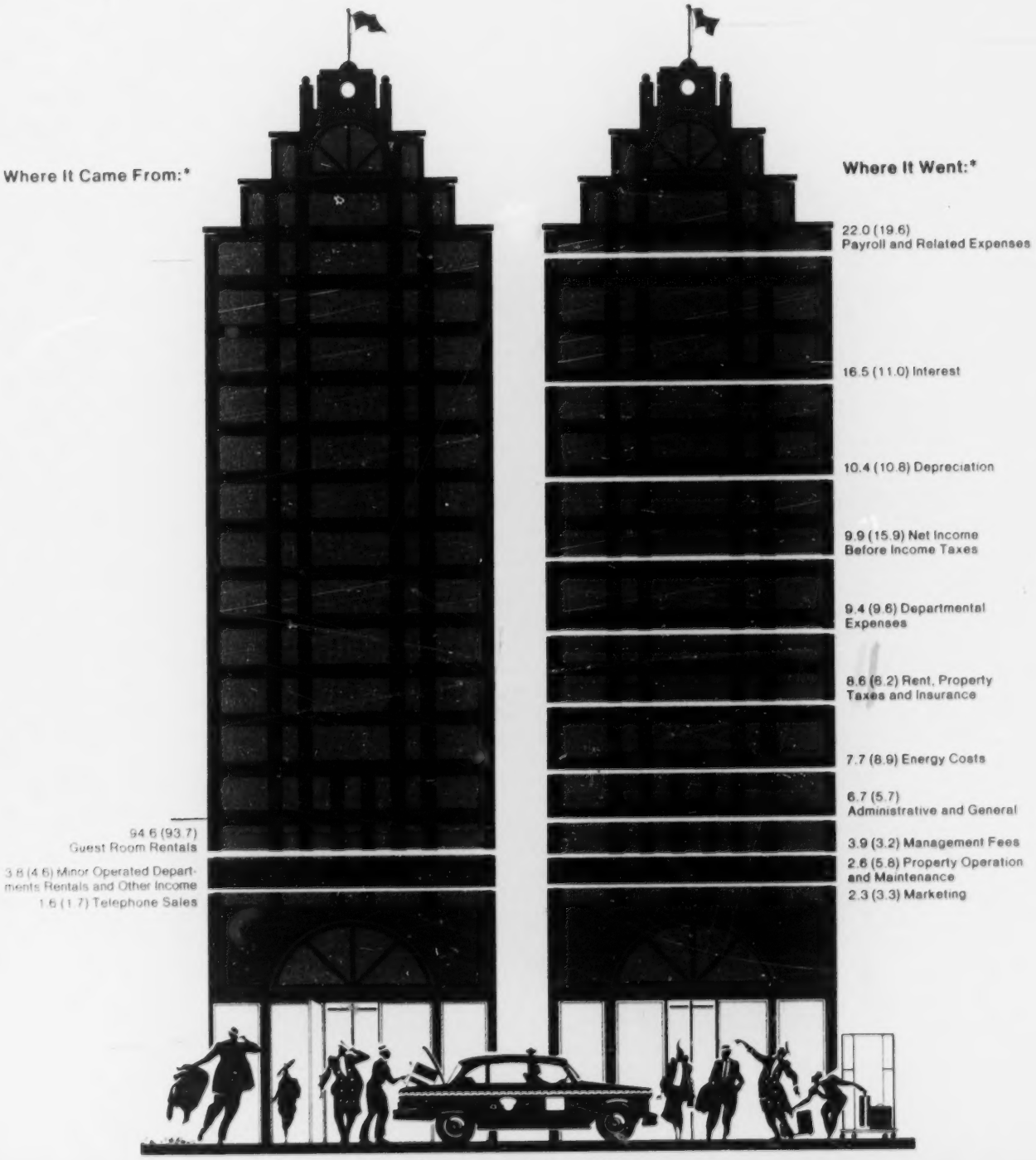
Fixed charges, composed of rent, property taxes, insurance, interest, depreciation and ammortization, are extremely influential to bottom line results. It has been reported that, compared with 1984, each part of these fixed obligations increased for all establishments. It is interesting to note that insurance costs have dramatically increased from a median amount of $35 in 1984 to $76 in 1985. As a ratio to total sales, these fixed charges on the whole have increased 34.5 percent to a median total of $2,156 per available room compared with last year.

As in prior studies, L&H provides a detailed look at results for economy/limited-service lodging operations in the industry in the form of cross tabulations. These provide information which allow lodging operators to identify results of properties which are similar to their own, based on two characteristics of the property. To accurately use these cross tabulations, locate both parameters of interest on the appropriate table (one row and one column) and find the intersection. The upper portion of each box shows the amount per room, while the lower portion represents the percentage of total sales. Additional cross tabulations show the average room rate as well as occupancy figure based on two parameters. Totals for each category in this study are also illustrated for comparison purposes. The intersections of the totals for each category reflect the results of the total sample.

After reviewing the industry's performance in 1985, and looking to its future, it is evident that many challenges lie ahead for the economy/limited-service industry. The lodging industry is at a point where the supply of available rooms has reached an all-time high, while at the same time great expansionary measures in technology and product automation are taking place. As long as travel remains a major industry in the United States, the economy/limited-service lodging sector will provide success to those who can provide guests with what they are looking for. It can be said for the lodging industry as a whole that market segmentation, tax laws and the accessibility of capital have ignited progressive development in this industry.

Despite encouraging signs, the years to come will not all be smooth sailing for the economy/limited-service industry market. After nearly a decade of encouraging expansion activity and productive enhancements, a decision must now be made as to what direction to follow. So much opportunity lies ahead, requiring careful thought and speculation, in addition to serious analysis. As the economy/limited-service market becomes more saturated, mergers and consolidations will be inevitable as competition stiffens. At that point, business opportunities may spread abroad, where yet another market awaits the development of these chains.

The U.S. Economy/Limited-Service Lodging Industry Dollar 1985


Where It Came From:*
94.6 (93.7) Guest Room Rentals
3.8 (4.6) Minor Operated Departments Rentals and Other Income
1.6 (1.7) Telephone Sales
Where It Went:*
22.0 (19.6) Payroll and Related Expenses
16.5 (11.0) Interest
10.4 (10.8) Depreciation
9.9 (15.9) Net Income Before Income Taxes
9.4 (9.6) Departmental Expenses
8.6 (6.2) Rent, Property Taxes and Insurance
7.7 (8.9) Energy Costs
6.7 (5.7) Administrative and General
3.9 (3.2) Management Fees
2.6 (5.8) Property Operation and Maintenance
2.3 (3.3) Marketing

*Based on the weighted mean 1984 percentages in parentheses.

Exhibit 1
1986 Profile of Contributors

Age		Rates	
Built Before 1970	16.3%	Under $26.00	30.4%
1970-1974	13.2	$26.00-$27.99	15.9
1975-1979	10.6	$28.00-$31.99	21.2
1980-1985	11.9	$32.00 & Over	32.5
Not Reported	48.0	Not Reported	0.5
Location		**Region**	
Center City	22.9%	East	14.5%
Suburban	22.0	North Central	51.1
Airport	4.4	South Central	11.9
Highway	48.5	West	22.5
Resort	2.2		
Occupancy		**Size**	
Less than 60%	33.9%	Under 75 Rooms	34.8%
60-69%	25.1	75-99 Rooms	12.3
70-79%	26.0	100-125 Rooms	29.1
80% & over	15.0	Over 125 Rooms	23.8

"For centuries, monasteries and other religious houses took in travelers. However, in 1530, Henry VIII suppressed the monasteries, forcing the growth of inns."

Exhibit 2

*Highlights**

	Full-Service**	Economy/ Limited-Service
Room Occupancy	65.5%	66.7%
Average Room Rate	$ 53.81	$29.09
Sales Per Available Room	$20,117	$7,096
Payroll & Related Expenses Per Available Room	$ 9,449	$1,487
Net Cost of Energy Per Occupied Room Per Day	$ 4.89	$ 2.48
Net Income Before Income Tax—Ratio to Total Sales	(0.6)%	5.7%

*All figures are medians.
**From *U.S. Lodging Industry 1986*.

Exhibit 3

General Profile of Typical Contributor—Based on Various Measures of Central Tendency

Criteria	Full-Service*	Economy/Limited-Service
Age	Built between 1970 and 1980	Built Between 1978 and 1984
Size	150-300 Rooms	Under 75 Rooms
Occupancy	60-69%	60-69%
Average Rate	$50.00-$54.99	$27.00-$30.99
Sales Volume	$2.5 million-$5 million	$250,000-$1,000,000
Restaurant Operation	Operated a restaurant in which the volume of food and beverage sales was less than 50% of room sales.	No restaurant operated
Other Management Operation Results	Affiliated with a chain. Reported net income before income tax in 1985.	Affiliated with a chain. Own land and building; Reported income before income tax in 1985.

*From *U.S. Lodging Industry 1986*.

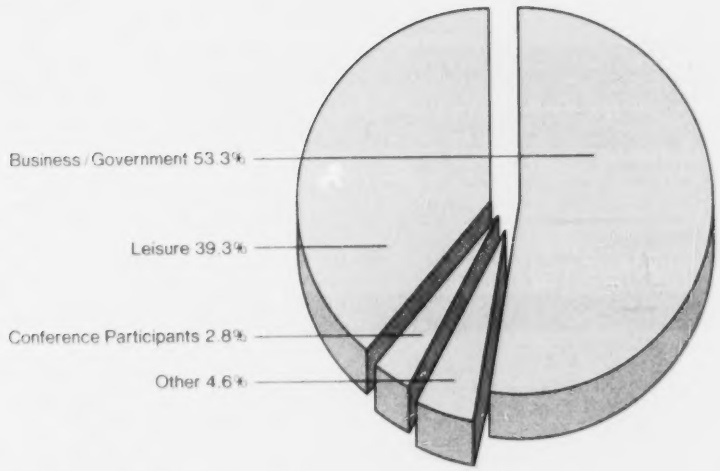
Exhibit 4

*Market Data**

	Mean, All Establishments	Location of Property		Average Rate			
		Suburban	Highway	Under $26.00	$26.00–$27.99	$28.00–$31.99	$32.00 and Over
Percentage of Repeat Business	40.4%	45.6%	40.0%	34.6%	38.3%	56.3%	40.0%
Composition of Market							
Business/Government	53.3%	52.2%	57.1%	54.4%	58.1%	46.1%	34.0%
Leisure	39.3	45.8	34.3	42.5	37.3	39.5	31.6
Conference Participants	2.8	1.4	3.4	2.0	3.1	4.9	2.5
Other	4.6	0.6	5.2	1.1	1.5	9.5	31.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Percentage of Advance Reservations	40.1%	42.5%	39.4%	49.6%	34.1%	48.1%	**
Composition of Advance Reservations							
Direct Inquiry or Own Reservation System	88.7%	93.1%	91.8%	95.7%	83.1%	80.0%	**
Independent Reservation System	3.0	3.7	0.3	0.4	5.0	0.8	**
Travel Agent or Tour Operator	4.2	2.1	2.9	0.9	6.6	13.3	**
Hotel Representative	3.4	1.1	3.7	3.0	4.8	1.7	**
Transportation Company	0.7	0.0	1.3	0.0	0.5	4.2	**
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

*Based on those supplying detail.
**Insufficient response.

Chart 3
*Composition of Market**
All Establishments



*Based on Arithmetic Mean

Chart 4
Technological Characteristics
Property Automation

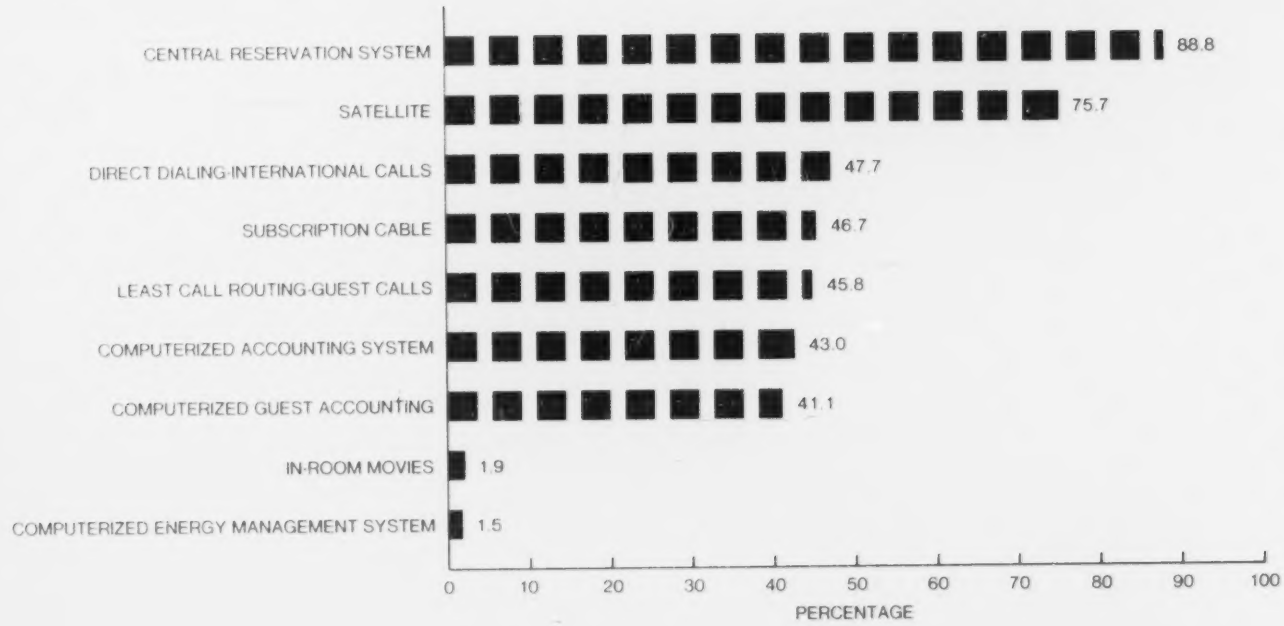
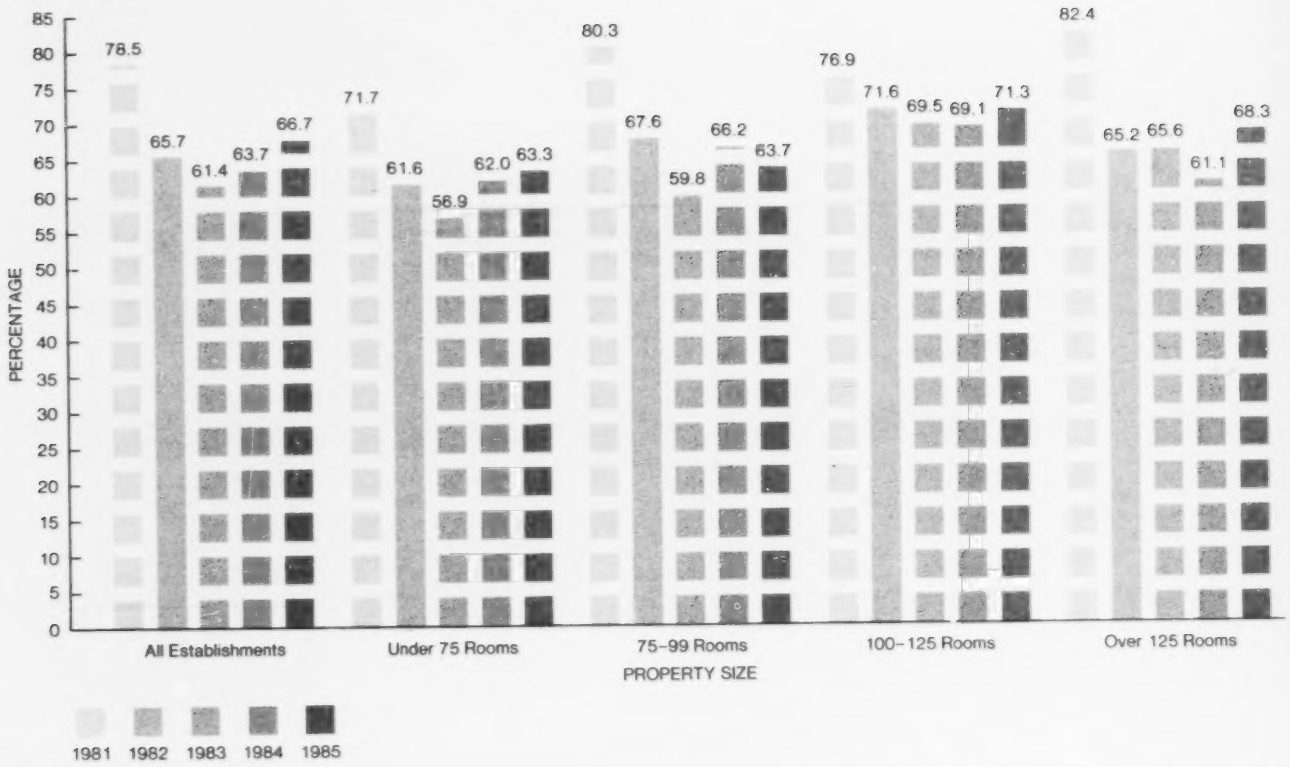


Chart 5

*Percentage of Occupancy**
Five-Year Overview—1981 to 1985



*All amounts are medians. Occupancy figures taken from previous issues of the L&H study *U.S. Economy Lodging Industry*

Exhibit 5

*Comparison of Sales and Profitability by Selected Criteria**

	Amount Per Room			Ratio to Total Sales		Number of Times Average Rate Was Earned
	Total Sales	Income Before Fixed Charges	Net Income Before Income Tax	Income Before Fixed Charges	Net Income Before Income Tax	
Age						
Built Before 1970	$5,109	$1,733	$ 46	35.1%	1.1%	73
1970-1974	6,415	2,397	965	41.3	17.3	116
1975-1979	6,672	3,457	1,982	51.4	26.1	123
1980-1985	6,950	3,246	(1,229)	40.1	(18.3)	112
Size						
Under 75 Rooms	$6,102	$1,951	$ 1	36.3%	N	75
75-99 Rooms	6,258	2,340	146	38.6	2.6	104
100-125 Rooms	7,699	3,457	1,017	47.9	14.9	123
Over 125 Rooms	7,639	3,195	165	46.7	2.5	108
Rate						
Under $26.00	$5,043	$1,591	$ 46	35.5%	1.1%	75
$26.00-$27.99	6,877	3,330	952	50.1	16.4	109
$28.00-$31.99	7,829	3,209	165	42.1	2.2	103
$32.00 & Over	9,622	4,648	756	48.4	7.3	127
Occupancy						
Under 60%	$5,109	$1,694	$ (87)	34.3%	(2.1)%	67
60-69%	7,090	3,086	218	46.8	4.1	112
70-79%	8,283	4,109	1,453	49.7	21.1	142
80% & Over	9,601	4,618	1,142	49.6	13.7	152
Profit/Loss						
Net Profit	$7,516	$3,449	$1,208	48.2%	17.0%	123
Net Loss	5,851	2,160	(763)	34.8	(15.8)	72
Median, All Establishments	**$7,096**	**$2,974**	**$409**	**44.2%**	**5.7%**	**105**

*All amounts are medians.
N—Negligible

Exhibit 6

Occupancy and Average Rate

	Percentage of Occupancy		Average Room Rate	
	1985	1984	1985	1984
Age				
Built Before 1970	57.5%	57.4%	$26.47	$24.75
1970-1974	70.4	63.5	24.47	25.55
1975-1979	63.6	67.2	26.51	25.29
1980-1985	70.3	65.6	32.90	26.94
Size				
Under 75 Rooms	63.3%	62.0%	$26.70	$24.63
75-99 Rooms	63.7	66.2	26.90	24.94
100-125 Rooms	71.3	69.1	30.54	26.74
Over 125 Rooms	68.3	61.1	34.92	32.77
Location				
Center City	57.6%	63.0%	$29.44	$25.61
Suburban	68.5	N/A	31.35	N/A
Airport	73.3	N/A	32.69	N/A
Highway	68.0	66.7	27.91	26.26
Region*				
East	67.5%	64.1%	$33.44	$32.78
North Central	66.7	66.3	27.05	24.63
South Central	68.0	57.6	32.19	28.43
West	60.2	59.1	29.28	26.39
Median, All Establishments	66.7%	63.7%	$29.09	$26.19

N/A—not available.
*East: CT, DE, DC, FL, GA, ME, MD, MA, NH, NJ, NY, NC, PA, RI, SC, VT, VA, WV.
North Central: IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI.
South Central: AL, AR, KY, LA, MS, OK, TN, TX
West: AK, AZ, CA, CO, HA, ID, MT, NV, NM, OR, UT, WA, WY.

Exhibit 7

*Net Income Differential**

	Lodging Facilities Reporting		Net Income Facilities Differs By
	Net Profit	Net Loss	
Occupancy	69.6%	56.9%	22.3%
Average Rate	$30.64	$29.25	4.8%
Amount Per Available Room			
Sales			
Rooms	$7,213	$5,674	27.1%
Telephone	158	171	(7.6)
Minor	290	244	18.9
Rentals & Other	68	61	11.5
Total Sales	7,516	5,851	28.5
Payroll & Related Expenses	1,323	1,379	(4.1)
Undistributed Expenses (Excluding Payroll)			
Administrative & General	353	340	3.8
Marketing	196	179	9.5
Energy Costs	475	473	0.4
Property Operation & Maintenance	238	225	5.8
Income Before Fixed Charges	3,449	2,160	59.7
Fixed Charges	1,711	3,388	(49.5)
Net Income (Loss) Before Income Tax	$1,208	$ (763)	—
Number of Times Rate Was Earned	123	72	70.8
Net Cost of Operation Per Dollar of Average Room Rate	$ 124	$ 116	6.9%
Ratio of Income Before Fixed Charges to Total Sales	48.2%	34.8%	38.5%
Employment Statistics			
Sales Per Employee	**	**	—
Productivity Index	5.27	4.18	26.1

*All figures are medians.
**Insufficient response.

Exhibit 8

*Composition of Sales**

	Location				Size of Property				Reporting	
	Center City	Suburban	Airport	Highway	Under 75 Rooms	75-99 Rooms	100-125 Rooms	Over 125 Rooms	Net Profit	Net Loss
Rooms	97.3%	93.9%	96.8%	95.4%	95.9%	96.3%	95.6%	94.4%	97.0%	95.0%
Telephone	0.4	1.7	0.6	1.9	1.5	1.7	1.0	1.8	0.9	1.2
Minor Departments	0.5	1.3	1.9	0.6	0.1	0.2	1.4	1.5	0.7	0.9
Rentals & Other	1.8	3.1	0.7	2.1	2.5	1.8	2.0	2.3	1.4	2.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

*Based on arithmetic mean.

Exhibit 9

Rooms Department Expenses
*Per Occupied Room Per Day—By Occupancy**

		Occupancy			
	Median, All Establishments	Under 60%	60-69%	70-79%	80% and Over
Payroll & Related Expenses	$4.52	$4.64	$4.86	$4.48	$3.45
Commissions & Reservation Expenses	.34	.27	.34	.44	.34
Cleaning, Linen & Laundry	.37	.33	.36	.41	.46
Operating Supplies	.67	.79	.63	.61	.64
Other Operating Expenses	.33	.32	.36	.31	.33
Total—1985	**$6.04**	**$6.07**	**$6.56**	**$6.47**	**$4.99**
Total—1984	$5.23	$5.52	$5.06	$5.24	$4.69
% Change	15.5%	10.0%	29.6%	23.5%	6.4%

*All figures are medians and do not necessarily add to totals shown. Based on those supplying detail.

Exhibit 10

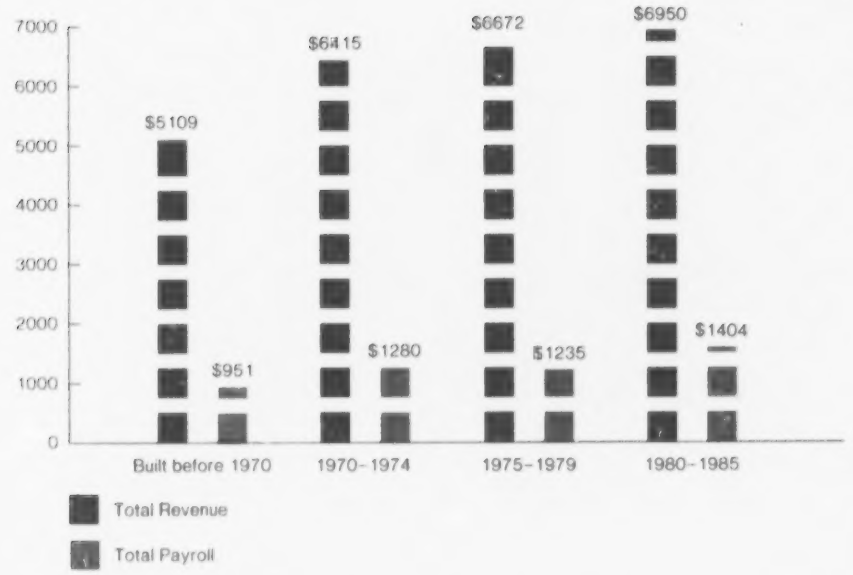
Payroll and Related Expenses
Per Occupied Room Per Day—By Occupancy*

		Occupancy			
	Median, All Establishments	Under 60%	60–69%	70–79%	80% and Over
Rooms	$4.52	$4.64	$4.86	$4.48	$3.45
Minor Operated Departments	.03	**	**	.03	**
Administrative & General	1.67	1.63	1.92	1.90	2.46
Marketing	.23	.46	.24	.14	.19
Property Operation & Maintenance	.58	.65	.45	.55	.60
Total—1985	**$6.46**	**$6.75**	**$6.43**	**$6.44**	**$5.94**
Total—1984	$5.26	$5.63	$5.13	$5.22	$4.96
% Change	22.8%	28.3%	25.3%	23.4%	19.8%

*Based on those supplying detail.
**Insufficient response.

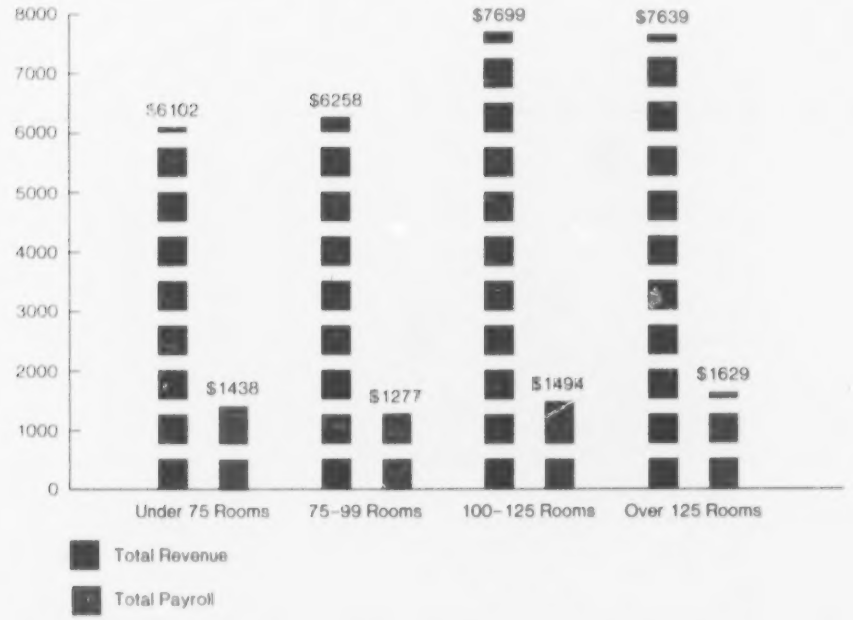
"Inns kept for profit appeared about the 15th century and gained a reputable standing in England, often being named for the powerful family on whose holdings they were established."

Chart 6
Amount Per Room
Total Revenues vs. Total Payroll ,*
—By Age



*All amounts are medians.
Total payroll figure is based on cash payroll & employee benefits from all departments.

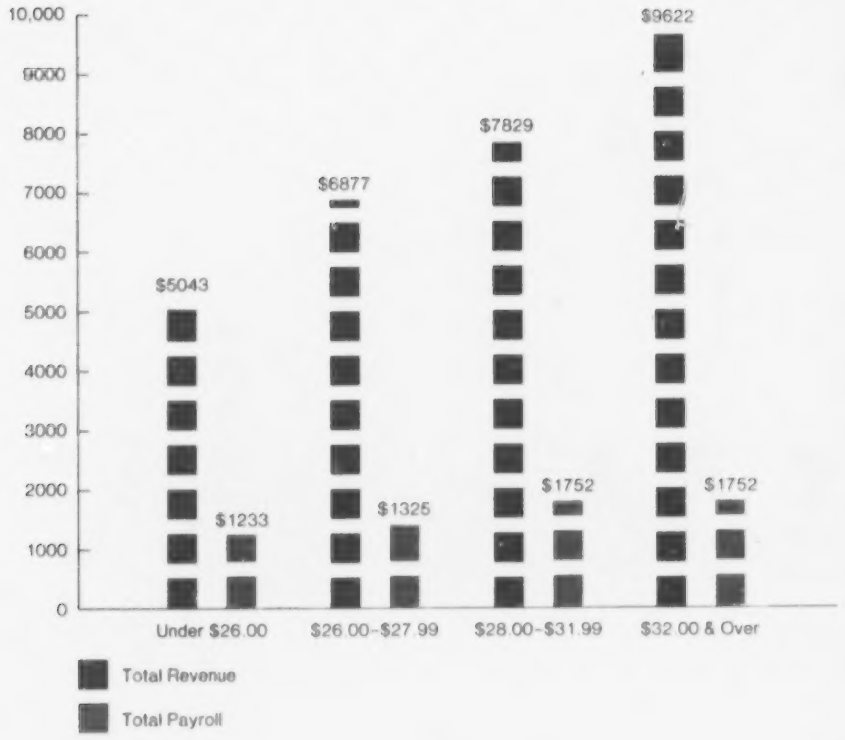
Chart 7
Amount Per Room
*Total Revenue vs. Total Payroll**
—By Size



*All amounts are medians.
Total payroll figure is based on cash payroll & employee benefits from all departments.

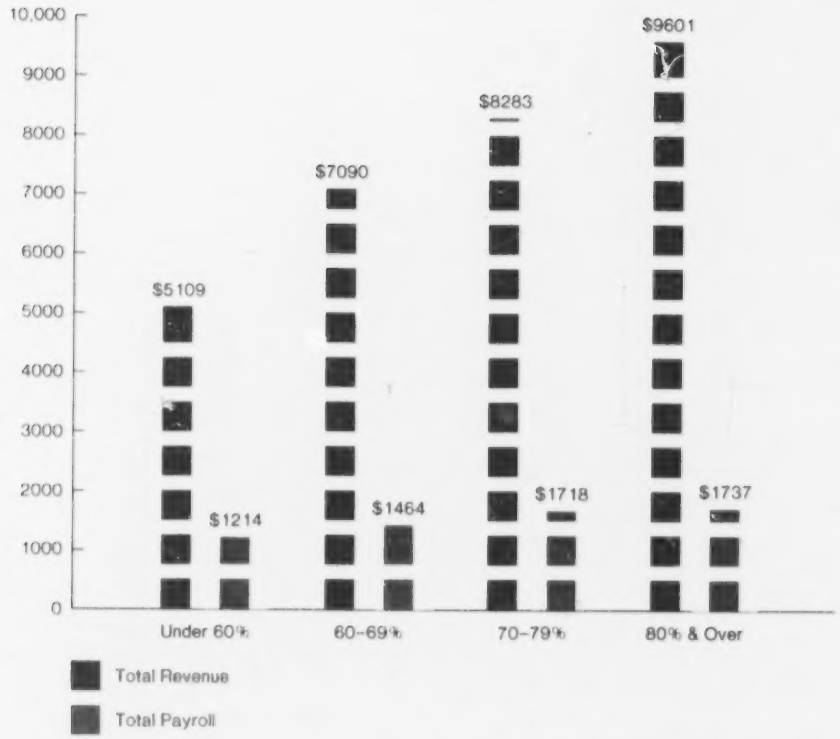
Chart 8

Amount Per Room
*Total Sales vs. Total Payroll**
—By Room Rate



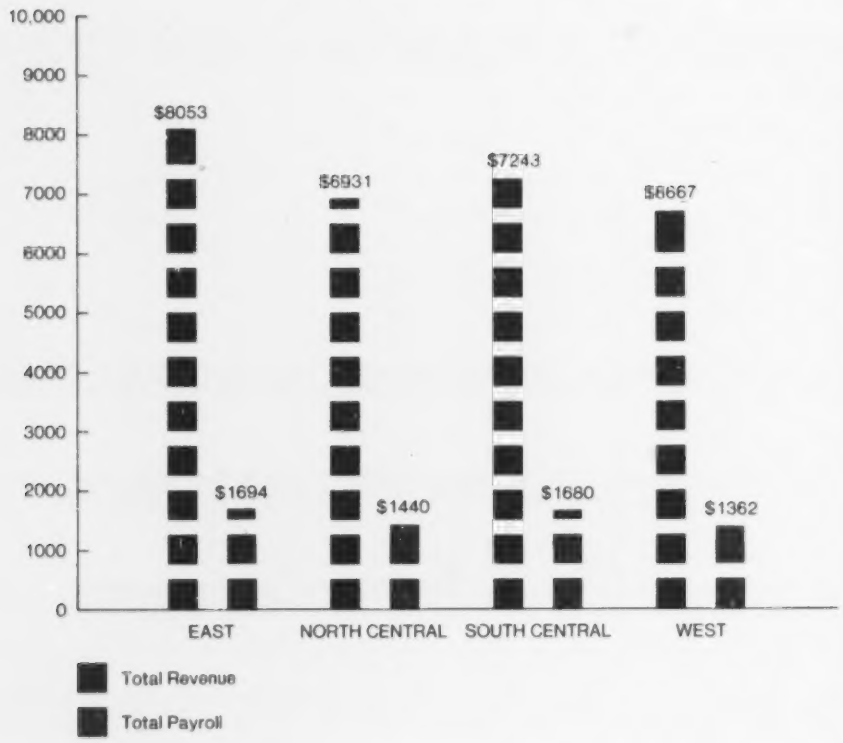
*All amounts are medians.
Total payroll figure is based on cash payroll & employee benefits from all departments.

Chart 9
Amount Per Room
*Total Revenues vs. Total Payroll**
—By Occupancy



*All amounts are medians.
Total payroll figure is based on cash payroll & employee benefits from all departments.

Chart 10
Amount Per Room
*Total Revenues vs. Total Payroll**
—By Region



*All amounts are medians.
Total payroll figure is based on cash payroll & employee benefits from all departments.

Exhibit 11

*Analysis of Undistributed Operating Expenses—By Selected Criteria**

	Median, All Establishments	Age of Property			
		Built Before 1970	1970-1974	1975-1979	1980-1985
Administrative & General—With Payroll					
Cost Per Room					
Payroll & Related Expenses	$ 463	$ 20	$570	$550	$323
Total Other Expenses	439	232	368	324	360
Total	1,016	258	949	869	898
Ratio to Total Sales					
Payroll & Related Expenses	6.0%	0.7%	8.5%	8.1%	5.6%
Total Other Expenses	6.2	4.5	4.7	4.9	5.4
Total	15.2	5.1	13.7	12.7	11.3
Administrative & General—Without Payroll					
Cost Per Room—Total	$ 383	$236	**	**	**
Ratio to Total Sales—Total	4.9%	4.9%	**	**	**
Marketing					
Cost Per Room—Total	$ 210	$170	$241	$206	$221
Ratio to Total Sales—Total	3.0%	3.8%	4.1%	3.1%	3.9%
Energy Costs					
Cost Per Room—Total	$ 507	$490	$558	$486	$414
Ratio to Total Sales—Total	7.2%	11.1%	10.3%	6.9%	6.3%
Property Operation & Maintenance—With Payroll					
Cost Per Room					
Payroll & Related Expenses	$ 126	$161	$133	$ 79	$ 98
Other Expenses	205	353	210	206	200
Total	324	520	356	276	275
Ratio to Total Sales					
Payroll & Related Expenses	2.0%	2.9%	2.3%	1.3%	2.1%
Other Expenses	3.1	7.1	3.3	3.0	3.2
Total	5.4	10.0	6.0	4.3	4.6
Property Operation & Maintenance—Without Payroll					
Cost Per Room—Total	$ 246	**	**	**	$214
Ratio to Total Sales—Total	2.9%	**	**	**	2.0%

*All figures are medians and do not necessarily add to totals shown. Based on those supplying detail.
**Insufficient response.

Size of Property				Occupancy			
Under 75 Rooms	75-99 Rooms	100-125 Rooms	Over 125 Rooms	Under 60%	60-69%	70-79%	80% and Over
$ 325	$ 560	$585	$454	$289	$ 450	$ 537	$ 722
695	450	361	347	331	447	510	604
1,218	1,019	919	848	849	1,016	1,200	1,464
4.6%	9.1%	8.1%	5.6%	5.2%	5.9%	6.1%	7.7%
11.6	7.1	5.0	5.2	7.1	5.6	5.6	5.3
16.4	16.4	12.7	10.3	15.2	15.5	14.2	13.8
$ 214	**	$417	$424	$268	$ 385	$ 448	$ 515
4.9%	**	4.8%	4.9%	5.0%	4.7%	4.6%	4.8%
$ 163	$ 217	$232	$259	$172	$ 186	$ 229	$ 240
2.5%	3.8%	3.0%	3.6%	4.0%	2.6%	2.5%	3.0%
$ 538	$ 527	$482	$497	$426	$ 491	$ 590	$ 539
8.8%	8.4%	6.6%	6.0%	9.6%	6.8%	6.6%	5.7%
$ 120	$ 151	$ 93	$184	$119	$ 102	$ 147	$ 180
155	203	210	264	224	166	204	264
295	325	311	469	316	274	371	471
2.0%	2.7%	1.4%	2.5%	2.6%	1.7%	1.5%	2.2%
2.5	3.7	3.0	3.2	4.5	2.8	2.1	2.8
5.0	6.7	5.2	5.9	7.4	4.5	4.0	8.1
$ 155	**	$296	$236	$182	$ 240	$ 351	$ 286
2.4%	**	3.5%	2.8%	2.8%	2.7%	3.2%	3.3%

Exhibit 12

Management Fees—All Establishments

	Lower Quartile	Median	Upper Quartile
Amount Per Room			
1985	$288	$383	$503
1984	233	325	453
Ratio to Total Sales			
1985	4.7%	4.9%	7.3%
1984	4.3	5.0	7.5

Exhibit 13

*Energy Costs Per Occupied Room Per Day—By Region**

		Region			
	Mean, All Establishments	East	North Central	South Central	West
Fuel	$ .62	$ .78	$ .60	$ .30	$ .65
Electricity	1.58	2.11	1.54	2.05	1.17
Water	.38	.56	.35	.35	.33
Total Cost—1985	**$2.48**	**$2.98**	**$2.56**	**$2.23**	**$2.10**
Total Cost—1984	$2.29	$3.28	$2.03	$2.39	$2.14

*Based on arithmetic mean.

Exhibit 14

*How the Energy Dollar Was Spent—By Occupancy**

		Occupancy			
	Mean, All Establishments	Under 60%	60-69%	70-79%	80% and Over
Fuel	20.4%	25.7%	19.5%	16.3%	13.6%
Electricity	63.7	59.9	66.3	64.3	68.9
Water	15.9	14.4	14.2	19.4	17.5
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

*Based on those supplying detail.

Exhibit 15

*Method of Payment For Services**

	Method of Payment		
	Cash	Credit Card	All Other Credit
Size			
Under 75 Rooms	51.8%	40.3%	7.9%
75-99 Rooms	55.0	31.8	13.2
100-125 Rooms	49.3	41.6	9.1
Over 125 Rooms	47.6	42.8	9.6
Location			
Suburban	51.6%	38.5%	9.9%
Highway	50.3	39.5	10.2
Rate			
Under $26.00	52.1%	35.4%	12.5%
$26.00-27.99	51.1	42.5	6.4
$28.00-31.99	45.4	48.6	6.0
$32.00 & Over	42.8	37.2	20.0
Sales Volume			
Under $250,000	60.0%	35.0%	5.0%
$250,000-$499,999	52.9	34.7	12.4
$500,000-$999,999	51.1	40.0	8.9
$1,000,000 & Over	42.6	47.6	9.8
Mean, All Establishments	50.3%	40.0%	9.7%

*Based on those supplying detail. All amounts are means.

Exhibit 16

*Fixed Charges—Median Amounts Per Room and Ratio to Total Sales—By Selected Criteria**

	Amounts Per Available Room						
	Rent	Property Taxes	Insurance	Interest	Depreciation and Ammortization	Total	Ratio to Total Sales
Age							
Built Before 1970	$389	$210	$ 76	$ 76	$ 654	$1,398	32.6%
1970-1974	993	251	106	461	481	1,420	23.8
1975-1979	266	220	46	699	549	1,639	27.8
1980-1985	**	300	112	2,088	1,424	3,445	56.0
Size							
Under 75 Rooms	$389	$160	$ 76	$ 88	$ 679	$1,471	34.8%
75-99 Rooms	640	268	112	396	544	1,887	33.5
100-125 Rooms	515	260	70	1,105	951	1,970	31.7
Over 125 Rooms	509	262	112	1,966	1,238	3,157	39.8
Location							
Center City	$370	$212	$ 76	$ 249	$ 882	$1,899	37.9%
Suburban	604	273	116	1,562	1,186	2,829	35.7
Highway	705	228	82	695	590	1,865	28.5
Region							
East	$317	$231	$ 76	$1,966	$1,322	$3,198	51.0%
North Central	705	284	76	591	602	1,880	31.5
South Central	421	215	100	1,880	1,198	3,066	44.2
West	399	202	78	606	982	1,904	29.8
Median, All Establishments	$439	$233	$ 76	$ 884	$ 937	$2,156	34.5%

*Based on those supplying detail. All figures are medians and do not necessarily add to totals shown.
**Insufficient response.

Exhibit 17

*Cross Tabulation of Occupancy and Average Room Rate— By Size and Region**

SIZE	REGION				
Average Room Rate / Occupancy	East	North Central	South Central	West	Total
Under 75 Rooms	**	$27.21	**	$26.55	$26.70
	**	66.7%	**	52.9%	63.3%
75-99 Rooms	**	$27.06	**	$30.74	$26.90
	**	62.0%	**	64.7%	63.7%
100-125 Rooms	$32.60	$26.61	$32.22	$33.64	$30.54
	71.6%	70.4%	71.3%	75.5%	71.3%
Over 125 Rooms	$35.62	$29.88	$34.30	$35.73	$34.92
	61.7%	63.7%	68.0%	74.4%	68.3%
Total	$33.44	$27.05	$32.19	$29.28	$29.09
	67.5%	66.7%	68.0%	60.2%	66.7%

*All amounts are medians.
**Insufficient response.

Exhibit 18

*Cross Tabulation of Occupancy and Average Room Rate— By Sales Volume and Profit/Loss**

SALES VOLUME	THOSE REPORTING		
Average Room Rate / Occupancy	Net Profit	Net Loss	Total
Under $250,000	$22.14	$20.20	$23.86
	54.9%	47.1%	55.4%
$250,000-$499,999	$25.59	$28.35	$27.66
	54.3%	57.6%	61.7%
$500,000-$1,000,000	$27.49	$30.05	$28.83
	70.2%	60.0%	66.6%
Over $1,000,000	$34.02	$33.93	$34.97
	74.5%	66.8%	74.4%
Total	$30.64	$29.25	$29.09
	69.6%	56.9%	66.7%

*All amounts are medians.

"If trends continue, the television set in the guest room of tomorrow will be the centerpiece of a complete in-room entertainment and informational center."

Exhibit 19

Cross Tabulation of Fixed Charges
By Room Rate and Occupancy
*Amount Per Room and Ratio to Total Sales**

AVERAGE RATE	OCCUPANCY				
Amount Per Room / Ratio to Total Sales	Under 60%	60-69%	70-79%	80% & Over	Total
Under $26.00	$1,222	$1,907	$1,552	**	$1,309
	32.6%	38.5%	24.8%	**	31.5%
$26.00-$27.99	$2,040	$1,869	$1,606	$2,205	$1,931
	42.7%	30.4%	22.6%	25.8%	30.0%
$28.00-$31.99	**	$3,219	$2,188	$2,910	$3,211
	**	42.1%	30.6%	32.3%	42.1%
$32.00 & Over	$2,949	$3,024	$4,151	$2,979	$3,112
	44.2%	36.3%	39.8%	30.7%	36.4%
Total	$1,632	$2,690	$2,181	$2,663	$2,156
	41.7%	35.8%	28.1%	30.7%	34.5%

*All amounts are medians.
**Insufficient response.

Exhibit 20

Cross Tabulation of Income Before Fixed Charges—
Amount Per Room and Ratio to Total Sales—
*By Average Room Rate and Occupancy**

AVERAGE RATE	OCCUPANCY				
Amount Per Room / Ratio to Total Sales	Under 60%	60-69%	70-79%	80% and Over	Total
Under $26.00	$1,192	$2,147	$3,094	**	$1,591
	29.7%	40.5%	44.9%	**	35.5%
$26.00-$27.99	$2,271	$3,264	$4,080	$4,617	$3,330
	41.6%	51.0%	53.4%	54.0	50.1%
$28.00-$31.99	**	$2,974	$3,869	$5,148	$3,209
	**	40.2%	46.7%	49.5%	42.1%
$32.00 & Over	$2,566	$4,616	$5,301	$5,186	$4,648
	42.4%	51.8%	51.6%	48.2%	48.4%
Total	$1,694	$3,086	$4,109	$4,618	$2,974
	34.3%	46.8%	49.7%	49.6%	44.2%

*All amounts are medians.
**Insufficient response.

Exhibit 21

Cross Tabulation of Income Before Taxes—
Amount Per Room and Ratio to Total Sales—
*By Average Room Rate and Occupancy**

AVERAGE RATE	Amount Per Room / Ratio to Total Sales	OCCUPANCY: Under 60%	60-69%	70-79%	80% and Over	Total
Under $26.00		$ 21	$ (40)	$1,639	**	$ 46
		0.5%	(0.8)%	23.8%	**	1.1%
$26.00-$27.99		$123	$1,011	$1,911	$2,254	$952
		2.2%	16.4%	25.4%	27.4%	16.4%
$28.00-$31.99		**	$ (295)	$1,203	$2,048	$165
		**	(4.0)%	15.3%	20.5%	2.2%
$32.00 & Over		$(87)	$1,333	$ 778	$1,632	$756
		(2.3)%	14.3%	7.5%	14.6%	7.3%
Total		$(87)	$ 218	$1,453	$1,142	$409
		(2.1)%	4.1%	21.1%	13.7%	5.7%

*All amounts are medians.
**Insufficient response.

Chart 11
Median Amounts Per Room
Total Revenue vs. Income Before
Income Taxes—By Profit vs. Loss

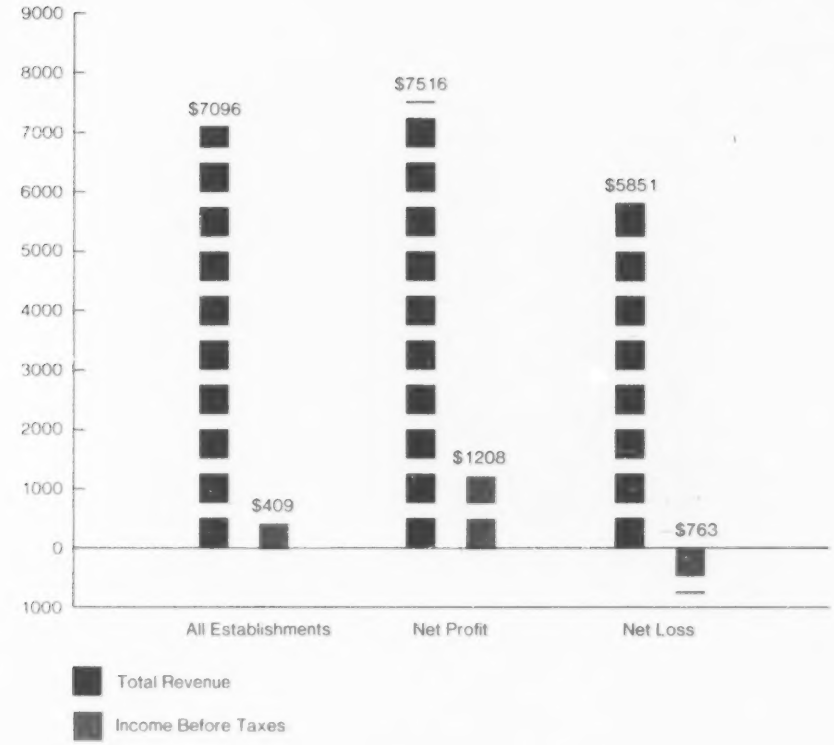


Chart 12
Median Amounts Per Room
Total Revenue vs. Income Before
Income Taxes—By Occupancy

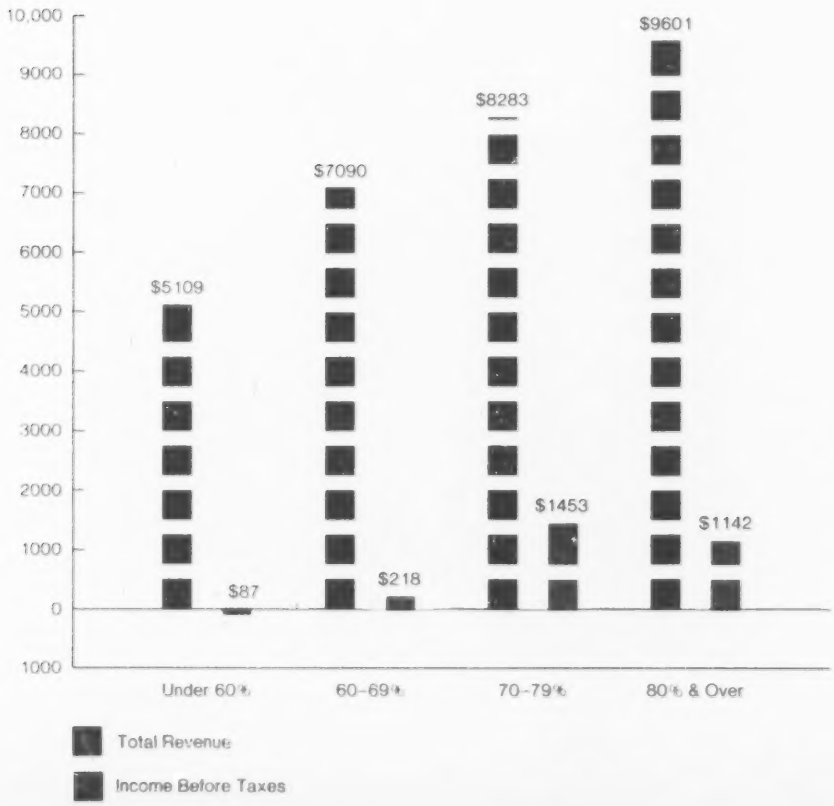


Exhibit 22

Statement of Income and Expenses
*Amount Per Available Room and Ratios to Total Sales—All Establishments**

	Amount Per Available Room	Ratio to Total Sales
Revenues		
Rooms	$6,734	96.5%
Telephone	171	2.5
Minor-Operated	178	2.4
Rentals & Other Income	74	1.4
Total	$7,096	100.0%
Department Expenses		
Rooms	$1,331	20.6%
Telephone	252	3.7
Minor-Operated	54	0.8
Total	$1,559	23.7%
Department Profit		
Rooms	$5,077	75.9%
Telephone	(79)	(1.1)
Minor-Operated	42	0.5
Rentals & Other Income	91	1.4
Total	$5,227	76.3%
Undistributed Operating Expenses		
Administrative & General		
Payroll & Related	$ 463	6.0%
Other	393	5.4
Total	$ 843	11.2%
Marketing		
Payroll & Related	$ 58	0.7%
Other	210	3.3
Total	$ 210	3.0%
Energy Costs	$ 507	7.2%
Property Operations & Maintenance		
Payroll & Related	$ 126	2.0%
Other	199	2.9
Total	$ 295	4.3%
Total Undistributed Operating Expenses	$1,872	28.3%
Income Before Management Fees	3,274	48.3
Management Fees (Base & Incentive)	383	4.9
Income Before Fixed Charges	2,974	44.2
Fixed Charges		
Rent	$ 439	7.4%
Property Taxes	233	3.7
Property Insurance	76	1.6
Interest	884	12.5
Depreciation & Amortization	937	13.9
Total	$2,156	34.5%
Income Before Income Taxes	$ 409	5.7%
Reserve for Capital Replacement	$ 157	2.9%

*All amounts are medians and do not necessarily add to totals shown.

Exhibit 23

*Statement of Income and Expenses—Amount Per Available Room**

	Built Before 1970	1970-1974	1975-1979	1980-1985
Average Annual Occupancy	56.8%	69.2%	63.3%	65.5%
Average Annual Room Rate	$25.02	$24.43	$26.63	$28.76
Revenues				
Rooms	$5,096	$6,080	$6,474	$6,742
Telephone	225	129	165	174
Minor-Operated	**	**	72	68
Rentals & Other Income	31	74	67	69
Total	$5,108	$6,415	$6,671	$6,949
Department Expenses				
Rooms	$1,114	$ 914	$ 923	$1,129
Telephone	**	290	255	243
Minor-Operated	**	**	48	39
Total	$1,115	$1,207	$1,181	$1,436
Department Profit				
Rooms	$3,819	$4,852	$5,492	$5,071
Telephone	(84)	(118)	(115)	(75)
Minor-Operated	**	**	24	26
Rentals & Other Income	31	74	67	69
Total	$3,823	$4,871	$5,581	$5,127
Undistributed Operating Expenses				
Administrative & General				
Payroll & Related	$ 20	$ 570	$ 549	$ 322
Other	236	378	305	330
Total	$ 250	$ 917	$ 851	$ 641
Marketing				
Payroll & Related	$ **	$ 68	$ **	$ 91
Other	169	223	195	223
Total	$ 170	$ 241	$ 206	$ 221
Energy Costs	$ 490	$ 557	$ 486	$ 413
Property Operations & Maintenance				
Payroll & Related	$ 160	$ 133	$ 79	$ 97
Other	343	210	162	159
Total	$ 513	$ 356	$ 218	$ 207
Total Undistributed Operating Expenses	$1,460	$2,024	$1,786	$1,701
Income Before Management Fees	2,078	2,674	3,696	3,532
Management Fees (Base and Incentive)	385	327	389	526
Income Before Fixed Charges	1,733	2,396	3,457	3,245
Fixed Charges				
Rent	$ 388	$ 993	$ 265	$ **
Property Taxes	209	251	219	299
Property Insurance	76	106	45	112
Interest	75	461	698	2,088
Depreciation & Amortization	654	481	548	1,423
Total	$1,397	$1,420	$1,638	$3,444
Income Before Income Taxes	$ 46	$ 964	$1,981	$(1,228)

*All amounts are medians and do not necessarily add to totals shown. **Insufficient response.

Under 75 Rooms	75-99 Rooms	100-125 Rooms	Over 125 Rooms	Under $26.00	$26.00-$27.99	$28.00-$31.99	$32.00 and Over
62.5%	62.5%	71.6%	66.5%	59.8%	66.6%	68.1%	69.7%
$26.94	$29.14	$28.83	$33.90	$22.49	$27.15	$31.35	$35.79
$5,847	$6,067	$7,464	$7,287	$4,788	$6,734	$7,555	$9,148
148	123	209	225	153	151	166	273
67	57	271	188	**	73	257	243
87	54	104	94	69	73	146	119
$6,101	$6,257	$7,898	$7,639	$5,042	$6,877	$7,828	$9,622
$1,282	$1,060	$1,181	$2,012	$ 863	$1,060	$1,967	$1,995
274	270	237	225	267	249	264	228
40	50	59	111	**	42	49	127
$1,472	$1,340	$1,453	$2,107	$1,085	$1,327	$2,031	$2,229
$4,431	$4,692	$5,756	$5,575	$3,790	$5,422	$5,472	$6,941
(109)	(125)	(8)	(10)	(90)	(106)	(97)	1
21	26	257	115	**	21	256	208
87	54	104	94	69	73	146	119
$4,596	$4,730	$6,115	$5,907	$3,915	$5,540	$5,751	$6,996
$ 324	$ 559	$ 564	$ 454	$ 459	$ 533	$ 423	$ 428
588	411	375	382	297	352	490	436
$1,042	$ 958	$ 838	$ 652	$ 833	$ 918	$ 895	$ 549
$ **	$ **	$ 44	$ 79	$ 36	$ **	$ 57	$ 56
156	243	217	267	157	188	329	245
$ 162	$ 217	$ 232	$ 259	$ 157	$ 185	$ 243	$ 238
$ 537	$ 526	$ 482	$ 496	$ 529	$ 479	$ 495	$ 531
$ 119	$ 151	$ 93	$ 184	$ 111	$ 97	$ 210	$ 184
154	171	200	263	202	135	224	281
$ 270	$ 294	$ 308	$ 364	$ 295	$ 232	$ 343	$ 391
$2,010	$1,987	$1,752	$1,837	$1,870	$1,839	$1,925	$1,740
2,674	2,803	4,249	3,669	2,037	3,294	3,508	5,371
363	276	426	347	292	386	394	471
1,951	2,339	3,457	3,195	1,591	3,330	3,208	4,647
$ 388	$ 639	$ 515	$ 508	$ 390	$ 469	$ 552	$ 475
159	268	259	262	199	212	268	310
76	112	69	111	76	75	182	81
87	396	1,105	1,965	385	648	1,784	2,022
678	543	950	1,237	541	584	1,267	1,324
$1,471	$1,887	$1,970	$3,157	$1,308	$1,930	$3,211	$3,111
$ 1	$ 146	$1,016	$ 164	$ 46	$ 952	$ 165	$ 755

(continued on next page)

Exhibit 23 (continued)

*Statement of Income and Expenses—Ratio to Total Sales**

	Built Before 1970	1970-1974	1975-1979	1980-1985
Average Annual Occupancy	56.8%	69.2%	83.3%	85.5%
Average Annual Room Rate	$25.02	$24.43	$26.63	$28.76
Revenues				
Rooms	99.4%	97.3%	97.7%	96.8%
Telephone	3.0	2.5	2.5	2.3
Minor-Operated	**		1.2	1.1
Rentals & Other Income	0.5	1.2	1.1	1.1
Total	100.0%	100.0%	100.0%	100.0%
Department Expenses				
Rooms	22.2%	15.1%	13.6%	20.8%
Telephone	**	4.9	3.8	3.6
Minor-Operated	**	**	0.7	0.6
Total	22.3%	19.7%	16.7%	24.9%
Department Profit				
Rooms	77.5%	81.2%	83.3%	76.7%
Telephone	(1.1)	(1.9)	(1.6)	(0.9)
Minor-Operated	**	**	0.4	0.4
Rentals & Other Income	0.5	1.2	1.1	1.1
Total	77.7%	80.1%	83.2%	75.0%
Undistributed Operating Expenses				
Administrative & General				
Payroll & Related	0.6%	8.4%	8.0%	5.6%
Other	4.5	5.1	4.8	5.1
Total	4.9	13.4	12.5%	9.9%
Marketing				
Payroll & Related	**	1.7%	**	1.3%
Other	3.8	3.5	3.0	4.3
Total	3.8	4.0%	3.0%	3.9%
Energy Costs	11.0%	10.2%	6.8%	6.2%
Property Operations & Maintenance				
Payroll & Related	2.9%	2.3%	1.2%	2.0%
Other	7.1	3.3	2.8	2.4
Total	9.8%	5.6%	3.2%	3.2%
Total Undistributed Operating Expenses	30.9%	33.0%	26.0%	25.9%
Income Before Management Fees	42.4	45.3	56.0	49.2
Management Fees (Base and Incentive)	8.4	4.7	6.1	4.9
Income Before Fixed Charges	35.0	41.3	51.3	40.1
Fixed Charges				
Rent	7.3%	19.3%	4.2%	**%
Property Taxes	4.7	3.7	3.4	3.7
Property Insurance	1.7	1.9	0.7	1.9
Interest	1.6	8.0	9.3	25.7
Depreciation & Amortization	15.7	6.4	8.2	25.4
Total	32.5%	23.7%	27.8%	55.9%
Income Before Income Taxes	1.1%	17.3%	26.1%	(18.2)%

*All amounts are medians and do not necessarily add to totals shown. **Insufficient response.

Under 75 Rooms	75-99 Rooms	100-125 Rooms	Over 125 Rooms	Under $26.00	$26.00-$27.99	$28.00-$31.99	$32.00 and Over
62.5%	62.5%	71.6%	66.5%	59.8%	66.6%	68.1%	69.7%
$26.94	$29.14	$28.83	$33.90	$22.49	$27.15	$31.35	$35.79
96.7%	97.0%	96.5%	95.2%	95.5%	97.0%	95.8%	95.8%
2.2	2.1	2.4	3.0	2.7	2.2	2.2	2.3
1.2	1.0	2.9	2.6	**	1.2	2.9	2.8
1.4	0.9	1.5	1.3	1.4	1.2	1.7	1.3
100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
21.1%	18.2%	15.0%	25.2%	18.8%	15.3%	27.9%	24.4%
4.0	4.3	3.3	3.0	4.5	3.8	4.0	2.1
0.7	0.7	1.0	0.9	**	0.7	0.7	1.0
23.2%	22.8%	18.9%	27.3%	22.9%	19.0%	29.7%	26.0%
74.8%	79.1%	79.9%	68.1%	77.4%	82.1%	66.9%	72.5%
(1.6)	(1.8)	(0.0)	(0.1)	(1.4)	(1.6)	(1.2)	0.0
0.4	0.3	2.8	1.0	**	0.4	2.8	2.6
1.4	0.9	1.5	1.3	1.4	1.2	1.7	1.3
76.8%	77.1%	80.5%	72.8%	76.8%	80.9%	70.3%	73.6%
4.6%	9.1%	8.0%	5.6%	7.7%	7.3%	5.0%	4.0%
8.8	7.1	4.8	4.9	7.2	5.8	5.6	4.6
15.4%	16.3%	11.1%	7.9%	12.9%	15.1%	9.9%	5.6%
**	**	0.3%	1.1%	0.8%	**	0.7%	0.4%
3.1	3.9	2.8	4.5	3.9	3.0	4.9	3.0
2.4%	3.8%	3.0%	3.5%	3.5%	2.7%	3.0%	2.4%
8.8%	8.4%	6.5%	5.9%	11.2%	7.0%	6.5%	5.6%
2.0%	2.7%	1.4%	2.4%	2.2%	1.4%	2.8%	2.0%
2.6	3.4	2.9	3.2	4.4	2.5	2.6	2.8
4.7%	5.6%	4.1%	3.9%	6.4%	3.2%	4.6%	3.7%
31.2%	33.3%	24.1%	22.6%	36.4%	28.0%	24.8%	18.8%
42.7	43.7	53.1	51.9	39.9	51.1	47.7	54.0
7.6	4.8	4.9	4.7	6.4	5.6	4.8	4.8
36.3	38.6	47.9	46.7	35.5	50.1	42.1	48.4
7.3%	18.3%	4.3%	6.8%	9.0%	7.0%	7.3%	5.5%
4.2	4.3	3.5	3.5	4.4	3.5	3.1	3.5
1.6	1.9	0.9	1.8	1.9	0.9	1.9	1.1
1.7	7.2	16.3	24.1	7.4	9.2	22.4	22.3
15.8	8.9	11.5	14.4	13.8	9.1	15.1	15.1
34.8%	33.4%	31.6%	39.8%	31.5%	29.9%	42.0%	36.4%
0.0%	2.6%	14.9%	2.4%	1.1%	16.3%	2.1%	7.3%

Exhibit 24

*Statement of Income and Expenses — Amount Per Available Room**

	Under 60%	60-69%	70-79%
Average Annual Occupancy	50.0%	65.0%	74.4%
Average Annual Room Rate	$27.22	$28.50	$29.88
Revenues			
Rooms	$4,881	$6,807	$8,161
Telephone	118	153	216
Minor-Operated	67	223	257
Rentals & Other Income	66	111	141
Total	$5,108	$7,089	$8,282
Department Expenses			
Rooms	$1,109	$1,486	$1,657
Telephone	238	243	294
Minor-Operated	39	41	124
Total	$1,222	$1,692	$1,917
Department Profit			
Rooms	$3,729	$5,019	$6,525
Telephone	(111)	(72)	(85)
Minor-Operated	22	202	115
Rentals & Other Income	66	111	141
Total	$3,911	$5,125	$6,707
Undistributed Operating Expenses			
Administrative & General			
Payroll & Related	$ 289	$ 450	$ 536
Other	306	419	454
Total	$ 425	$ 873	$ 896
Marketing			
Payroll & Related	$ 82	$ **	$ 38
Other	179	185	232
Total	$ 171	$ 185	$ 228
Energy Costs	$ 426	$ 491	$ 590
Property Operations & Maintenance			
Payroll & Related	$ 119	$ 102	$ 147
Other	192	166	201
Total	$ 290	$ 245	$ 363
Total Undistributed Operating Expenses	$1,608	$1,785	$2,099
Income Before Management Fees	1,891	3,357	4,412
Management Fees (Base & Incentive)	308	365	471
Income Before Fixed Charges	1,594	3,085	4,109
Fixed Charges			
Rent	$ 366	$ 548	$ 602
Property Taxes	180	252	292
Property Insurance	76	76	85
Interest	546	904	922
Depreciation & Amortization	812	1,088	1,191
Total	$1,631	$2,689	$2,180
Income Before Income Taxes	$ (86)	$ 218	$1,453

*All amounts are medians and do not necessarily add to totals shown. **Insufficient response.

80% and Over	East	North Central	South Central	West
82.4%	67.5%	66.6%	68.0%	60.1%
$30.35	$33.44	$27.04	$32.19	$29.28
$9,273	$7,978	$6,539	$6,882	$6,534
271	278	166	172	132
163	194	97	281	43
76	93	111	47	37
$9,600	$8,052	$6,930	$7,243	$6,666
$1,540	2,022	1,188	2,024	1,262
241	221	254	315	256
75	133	42	**	36
$1,609	$2,436	$1,455	$2,251	$1,432
$7,144	$5,530	$5,126	$4,380	$5,019
17	55	(90)	(199)	(132)
42	103	35	278	12
76	93	111	47	37
$7,569	$6,039	$5,318	$4,650	$5,216
$ 722	$ 385	$ 475	$ 531	$ 409
543	374	493	419	307
$1,025	$ 549	$1,022	$ 498	$ 433
$ 56	$ 82	$ 57	$ **	$ 48
223	280	208	210	168
$ 239	$ 302	$ 185	$ 236	$ 183
$ 538	$ 617	$ 540	$ 459	$ 433
$ 179	$ 182	$ 97	$ 143	$ 153
262	262	156	312	265
$ 376	$ 398	$ 255	$ 384	$ 336
$2,326	$2,074	$2,029	$1,619	$1,619
5,155	4,427	3,261	2,934	3,621
523	320	399	365	393
$ 640	$ **	$ 704	$ 421	$ 398
328	231	283	214	201
135	76	76	100	78
1,561	1,965	590	1,879	606
1,140	1,322	602	1,197	982
$2,662	$3,197	$1,880	$3,065	$1,903
$1,141	297	$ 504	$ 2	$ 901

(continued on next page)

Exhibit 24 (continued)

*Statement of Income and Expenses—Ratio to Total Sales**

	Under 60%	60-69%	70-79%
Average Annual Occupancy	50.0%	65.0%	74.4%
Average Annual Room Rate	$27.22	$28.50	$29.88
Revenues			
Rooms	97.2%	96.4%	95.5%
Telephone	2.4	2.2	2.5
Minor-Operated	1.2	2.8	2.6
Rentals & Other Income	1.4	1.4	1.6
Total	100.0%	100.0%	100.0%
Department Expenses			
Rooms	22.6%	22.2%	18.6%
Telephone	4.2	3.5	3.6
Minor-Operated	0.7	0.7	1.0
Total	24.8%	25.7%	23.1%
Department Profit			
Rooms	74.3%	73.9%	76.5%
Telephone	(1.9)	(1.1)	(1.0)
Minor-Operated	0.4	2.7	1.0
Rentals & Other Income	1.4	1.4	1.6
Total	75.2%	74.3%	76.5%
Undistributed Operating Expenses			
Administrative & General			
Payroll & Related	5.2%	5.8%	6.0%
Other	6.1	5.1	5.0
Total	8.9%	12.5%	11.7%
Marketing			
Payroll & Related	1.0%	**	0.4%
Other	3.9	3.1	2.7
Total	3.9%	2.6%	2.4%
Energy Costs	9.5%	6.7%	6.6%
Property Operations & Maintenance			
Payroll & Related	2.6%	1.7%	1.5%
Other	4.2	2.7	2.0
Total	5.9%	3.4%	3.8%
Total Undistributed Operating Expenses	34.0%	27.0%	25.7%
Income Before Management Fees	40.2	49.2	52.4
Management Fees (Base and Incentive)	5.4	4.8	4.8
Income Before Fixed Charges	34.2	46.8	49.6
Fixed Charges			
Rent	7.3%	9.4%	7.4%
Property Taxes	4.3	3.5	3.4
Property Insurance	1.7	1.2	1.5
Interest	11.8	13.6	11.0
Depreciation & Amortization	18.2	14.5	11.7
Total	41.7%	35.7%	28.1%
Income Before Income Taxes	(2.1)%	4.1%	21.1%

*All amounts are medians and do not necessarily add to totals shown. **Insufficient response.

80% and Over	East	North Central	South Central	West
82.4%	67.5%	66.6%	65.0%	60.1%
$30.35	$33.44	$27.04	$32.19	$29.28
96.4%	94.6%	95.7%	97.3%	97.9%
2.9	2.8	2.5	2.0	2.1
1.4	2.8	1.2	3.0	1.0
0.7	1.3	1.5	1.2	0.5
100.0%	100.0%	100.0%	100.0%	100.0%
15.4%	24.9%	18.5%	28.1%	20.8%
2.9	2.5	3.7	5.3	4.4
0.8	1.0	0.7	**	0.7
19.6%	29.8%	21.8%	29.0%	20.8%
79.9%	67.3%	77.3%	67.0%	78.7%
0.1	0.4	(1.1)	(2.6)	(2.4)
0.5	0.8	0.4	2.9	0.2
0.7	1.3	1.5	1.2	0.5
80.4%	70.2%	78.2%	71.0%	79.1%
7.6%	4.0%	6.6%	10.0%	6.8%
4.8	4.6	8.1	4.9	4.8
11.1%	6.6%	15.8%	5.2%	7.5%
0.5%	1.4%	1.1%	**	0.4%
4.0	3.8	3.0	5.4	3.9
2.9%	3.8%	2.4%	3.5%	3.9%
5.6%	6.5%	8.3%	6.5%	5.9%
2.2%	2.1%	1.6%	2.9%	2.4%
2.5	3.2	2.4	5.2	4.4
3.7%	4.0%	3.9%	5.4%	5.1%
26.3%	21.5%	29.8%	23.5%	26.6%
54.4	47.9	47.9	39.9	52.1
5.0	4.6	5.6	4.8	4.8
49.5	40.2	45.1	36.9	46.2
6.6%	**	11.6%	9.4%	7.2%
2.9	2.8	4.5	3.2	3.1
1.5	1.4	1.3	2.9	1.7
15.0	25.7	10.9	23.1	8.7
11.0	17.5	9.3	15.3	13.6
30.7%	51.0%	31.5%	44.2%	29.7%
13.7%	(4.1)%	8.5%	0.0%	13.9%

APPENDIX I: UNDERSTANDING MEDIANS

Throughout the year the Research Division at Laventhol & Horwath receives many phone calls requesting explanations about information contained in this study. "What is a median?" and "Why don't these amounts add to the total?" are probably the two most asked questions. Hopefully, this article will shed some light on these confusing issues.

A median is defined as the middle value of all amounts calculated for a specific line item. For example, if we received nine responses for number of full-time employees—8, 4, 2, 6, 9, 7, 5, 1, 3; these numbers would be arranged sequentially—1, 2, 3, 4, 5, 6, 7, 8, 9 and the middle value "5" would be the median since 50 percent of the responses received are below the value and 50 percent are above.

The responses are also broken into quartiles, or four equal parts, with the median still being the middle value.

The *lower quartile* is the value that separates the lowest 25 percent of the responses from the rest of the sample when arranged sequentially, while the *upper quartile* defines the boundaries of the upper 25 percent of the responses from the lower 75 percent. Stated another way, 50 percent of all responses fall between the lower and upper quartiles. For example, if we receive 99 responses for a specific line item and the responses (conveniently) were numbered 1 thru 99, the median (or middle value) would be 50, the lower quartile would be 25 (25 percent of the responses would be below 25), and the upper quartile would be 75 (25 percent of the responses would be above 75). Fifty percent (or half) of the responses would fall between the lower and upper quartiles. (See chart below.)

"In 1859, the first passenger elevator ('vertical railway') was installed in a hotel; upper rooms could now have a higher rate than those on lower floors."

Now that everyone has an understanding of medians, an attempt will be made to answer the question "Why don't the amounts add to the totals?"

The most important thing to remember is that *each line item is analyzed separately!* In the accompanying table (page 18) when all amounts are arranged sequentially, the median amount per available room for total revenue is $6,282. This figure is based on the 200 properties* that gave us information for this specific line item. The median amounts per room for telephone, minor operated, and rentals and other income were $175, $66 and $45 respectively. These three amounts were analyzed on a sample of 180 properties that gave us separate income figures; 20 properties provided only information on room sales; they may have only had room revenue in their establishment. Variation in sample sizes is one reason why figures do not add to the totals shown.

There is another major reason that columns do not total. When using medians, it is important to remember that the median room sales, the median telephone sales and the median for the other income reported probably represent the results for many properties. This also holds true for lower and upper quartile figures.

**The numbers used for sample sizes are representative and are not actual sample sizes.*

One more fact to remember when comparing a hotel with those reported in this study is that it is not constructive to compare a whole column to your establishment's results (the median column, for example). If your hotel has roughly the same total sales as the median reported it may not be correct to follow through using median amounts for costs and expenses. Since each line is analyzed separately, one property may be close to the median in sales, but may have much higher or lower costs and expenses. There are certain factors such as size of hotel and region that may predetermine the costs and expenses and will automatically make a figure higher or lower than the median.

The proper way to compare a property's results with those reported in this study is to first complete the worksheet provided in the back of this study. Then compare industry figures to your figures, line by line. Large variances may identify an area in an operation that requires closer analysis.

Statement of Income and Expenses

Median Amounts Per Available Room and Ratios to Total Sales—All Establishments

	Amount Per Available Room
Revenue	
Rooms	$6,734
Telephone	171
Minor Operated Departments	178
Rentals & Other Income	74
Total Revenue	$7,096

APPENDIX II: BASES AND SIGNIFICANCE OF LODGING STATISTICS

The operating ratios found in this report are based on a survey of a significant sample of the economy/limited-service sector of the lodging market. This report provides detailed guidelines that allow a manager of an economy property or an entrepreneur to evaluate his operation by comparing it with others that have similar characteristics (size, location, region, ownership of assets). Operating statistics used to analyze the economy/limited-service lodging industry express operating revenue and expenses as a ratio to total sales or as an amount per available room, the most common bases.

Number of rooms

The number of rooms used in several computations is the total number of rooms available for guest rental during the year. All rooms used for management, employees and store rooms are not included in these totals.

Room occupancy

The percentage of room occupancy is computed by dividing the total number of rooms occupied by the total number of rooms available for occupancy throughout the year. Seasonal fluctuations are thus removed, allowing properties in various climates to be compared for the same period. Seasonal variations can be seen when analyzed on a monthly basis, such as in the *National Trend of Business in the Economy Lodging Industry*.

Average room rate

The average room rate is computed by dividing rooms revenue, net of all allowances, by the total number of rooms occupied. Affecting this rate is the percentage of double occupancy associated with each property. Double occupancy is the percentage of rented rooms occupied by two or more persons. As the double occupancy increases, the room rate should also rise, since lodging facilities customarily charge a fee for each additional person occupying the guest room. Since most respondents in this survey did not report the total number of guest nights during the year, we were not able to report a double occupancy figure for 1981.

Comparison of operating results

Due to the current uncertainties surrounding financing methods, operators of lodging establishments may lease all or part of their assets. Because of high construction and interest costs, many operators have turned to creative financing techniques. For operators who lease their assets, fixed costs may differ significantly from those who own their assets. It is difficult to compare those operations with high depreciation and interest charges with those that are not required to pay any of those fees. To alleviate possible difficulties in comparison, it is recommended that the reader analyze results before fixed charges are deducted.

Number of times the average rate was earned

The number of times the average rate was earned is obtained by dividing income before fixed charges per available room by the average room rate. In comparing the total earnings of various hotels, the basis of comparison should be the average earnings per available room, since a large hotel should earn more in total than a smaller one. At the same time, earnings per available room should be

"During the 19th century, hotels were sometimes the first buildings constructed in remote locations, in the hope that a thriving community would grow up around them."

judged in relation to the rate charged. Combining both of these necessary components of analysis results in the number of times the average rate goes into the earnings per available room. Table 1 illustrates the practical application of this basis of comparison.

On the basis of the amount earned per available room, Hotel B seems to have the best record. But when the operating income is examined in relation to the average rate, it is evident that Hotel B did not do as well as Hotel A or Hotel C.

Means, medians and quartiles

Most of the figures in this lodging survey are given as medians and quartiles rather than means. The median and upper and lower quartiles are calculated by first arraying all the numbers in the order of the lowest to the highest figure. The number that falls in the middle of the list is the median. The figure halfway between the lowest number and the median is the lower quartile, while the figure halfway between the median and the highest number is the upper quartile. To arrive at an arithmetic mean, divide the sum of the values by the number of items used. Table 2 illustrates the difference between the two.

It can be seen how the inclusion of a unit with high sales per occupied room may bring about a mean that is not as representative of the group as is the median.

Productivity index

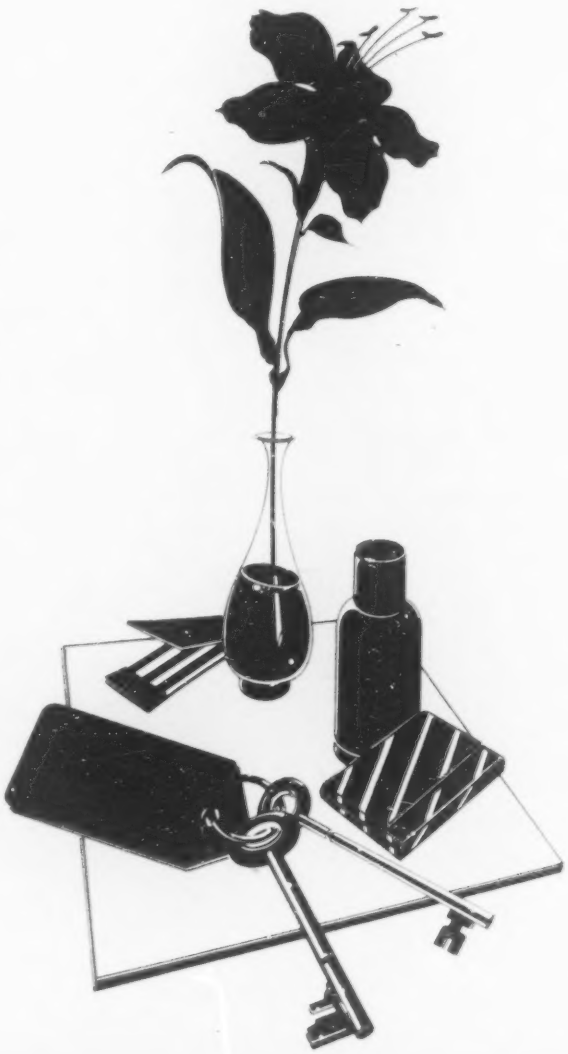
The productivity index measures employee productivity in terms of the total revenue received for each dollar spent on payroll expenses. It is computed by dividing total revenue by total payroll and related expenses.

Table 1

	Hotel A	Hotel B	Hotel C
Number of Available Rooms	80	100	120
Average Room Rate	$15	$20	$17
Income Before Fixed Charges	$275,000	$385,000	$425,000
Income Before Fixed Charges Per Available Room	$3,438	$3,850	$3,542
Number of Times Average Rate Was Earned	229	193	208

Table 2

	Room Sales	Occupied Rooms	Room Sales Per Occupied Room
Hotel A	$ 300,000	20,000	$15.00
Hotel B	455,000	28,000	16.25
Hotel C	650,000	32,000	20.31
Hotel D	930,500	45,000	20.68
Hotel E	1,250,000	50,000	25.00
Total	$3,685,500	175,000	$97.24
Median			$20.31
Mean ($97.24 ÷ 5)			$19.45



PROPERTY ANALYSIS

The worksheet to the right will provide a quick analysis of how your property is performing in comparison to the industry.

Periodic analysis of the financial performance of your lodging establishment may provide early warning signs of potential problems. Examination on a regular basis could reveal undesirable trends and provide the opportunity for corrective action. The worksheet on this page is designed to provide a quick analysis of key items to reveal problem areas.

Follow these simple instructions for completing the worksheet:

1. Enter your figures in the first column.
2. Select the appropriate medians for comparison from the tables or text.
3. If the variance is greater than plus or minus 10 percent, further analysis should be made to determine the reason for that variance.

Worksheet

(Use medians from exhibits)

Amount Per Available Room	Your Property	Comparison 1	Comparison 2
Average Annual Occupancy Rate			
Average Annual Room Rate			
Revenues			
Rooms			
Telephone			
Minor-Operated			
Rentals & Other			
Total			
Department Expenses			
Rooms			
Telephone			
Minor-Operated			
Total			
Department Profit			
Rooms			
Telephone			
Minor-Operated			
Rentals & Other			
Total			
Undistributed Expenses			
Administrative & General			
Payroll & Related			
Other			
Total			
Marketing			
Payroll & Related			
Other			
Total			
Energy			
Property Operations & Maintenance			
Payroll & Related			
Other			
Total			
Total Undistributed Expenses			
Income Before Management Fees			
Management Fees (Base & Incentive)			
Income Before Fixed Charges			
Fixed Charges			
Rent			
Property Taxes			
Property Insurance			
Interest			
Depreciation & Amortization			
Total Fixed Charges			
Income Before Income Taxes			

EXPLANATION OF TERMS

Room sales

Guest room revenue generated from accommodations on a part-day occupancy, full-day or longer period basis, net of any rebates and discounts. Also included are charges for maid or linen services.

Rentals and other income

Income from vending machine concessions and commissions, public telephone commissions, merchandise sales of postcards, souvenirs and newspapers, commissions on guest laundry, valet, meeting room rentals and all other income not included elsewhere.

Payroll and related expenses—rooms department

The salaries and wages of departmental personnel and management including overtime, holiday and vacation pay. Also included are employee benefits and payroll taxes such as Federal, state, social security and workmen's compensation.

Payroll and related expenses—administrative and general

Salaries and wages for the resident manager or managing director, secretaries, reception clerks and bookkeepers.

Undistributed operating expenses—administrative and general

Expenses incurred from bad debts, credit card commissions, data processing services, general insurance, licenses and dues, operating supplies, professional fees, security services, travel and entertainment and other related miscellaneous expenses.

"The term 'hotel' began being used in the U.S. in the 1790s."

Marketing

Advertising, publicity, franchise fees and other promotional expenses such as printing newspaper, magazine and billboard space and broadcasting time.

Energy

The costs of fuel, electrical current and water.

Payroll and related expenses—property operation and maintenance

Payroll and related expenses related with the repair and maintenance of the building, furniture and fixtures, equipment, in addition to all the other expenses necessary to keep the property in operating condition.

Property operation and maintenance

The cost of materials used in repairing equipment, the exterior and interior of the building (floors, walls, doors, furniture), grounds and landscaping, painting and decorating, the removal of waste matter and other related expenses necessary for the upkeep of the lodging facility.

Management fees

Fees charged by a management organization for management service or supervision should be charged to the account.

Income before fixed charges

For purposes of this economy/limited-service lodging industry study, income before fixed charges is defined as total departmental revenue from all sources (rooms, minor departments, rentals and other income and telephone) less all departmental and undistributed operating expenses. This is the income from all operations before deducting rent, property taxes, property insurance, interest, depreciation and income taxes.

LEISURE TIME INDUSTRY CONTACTS

Laventhol & Horwath has, since its inception, specialized in providing sophisticated advisory services to all facets of the lodging industry. The Leisure Time Advisory Services practice is the largest of its kind in the country in terms of fee volume, professional staff, geographic diversification and service capability. L&H routinely serves as advisor to the nation's most prominent hotels, developers, financiers, syndicators and industrial corporations on methods used in developing, financing, managing, operating and marketing lodging properties.

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B. Worldwide Hotel Industry	65	165	September
C. U.S. Economy Limited-Service Lodging Industry	50	120	September
D. Texas Lodging Industry	50	120	September
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